

Econ 101 Discussion Section

Worksheet 11: Chapter 15 and Chapter 16

Review of Concepts:

- Monopoly
- Price Discrimination
- Antitrust Laws
- Different Market Structures
- Monopolistically Competitive Firm

Practice Exercises: Short Answers

Question 1:

Consider a market for smart phones. Assume that there is only one firm in the market. The market demand for smart phones is given by the equation: $Q_d = 60 - P$

The monopoly firm's total cost, marginal cost, and marginal revenue curves are given by the following equations:

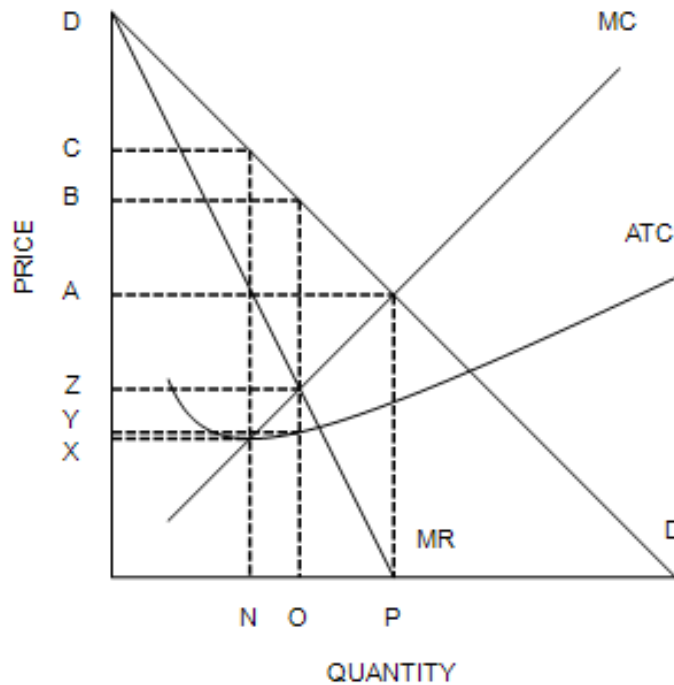
$$TC = 60 + 0.5Q^2$$

$$MC = Q$$

$$MR = 60 - 2Q$$

- a. Find the profit maximizing price and quantity for this monopolist. Calculate the monopolist's profit.
- b. Suppose that this monopoly decides to produce the level of output that would be produced if this market were a perfectly competitive market. Determine what this level of output would be. Then, determine the price the monopoly would charge and the level of profits that the monopoly would earn given this production and pricing decision.

Figure 15-4



2. Refer to Figure 15-4. What price will the monopolist charge in order to maximize profit?
 - a. X
 - b. Z
 - c. B
 - d. C

3. Refer to Figure 15-4. How much output will the monopolist produce in order to maximize profit?
 - a. 0
 - b. N
 - c. O
 - d. P

4. Refer to Figure 15-4. What area measures the monopolist's profit?
 - a. $(B - Z) \times O$
 - b. $(C - X) \times N$
 - c. $(B - Y) \times O$
 - d. $0.5[(B - Z) \times (P - N)]$

Indicate whether the statement is true or false.

5. A monopolist produces where $P > MC = MR$.

- a. True
- b. False

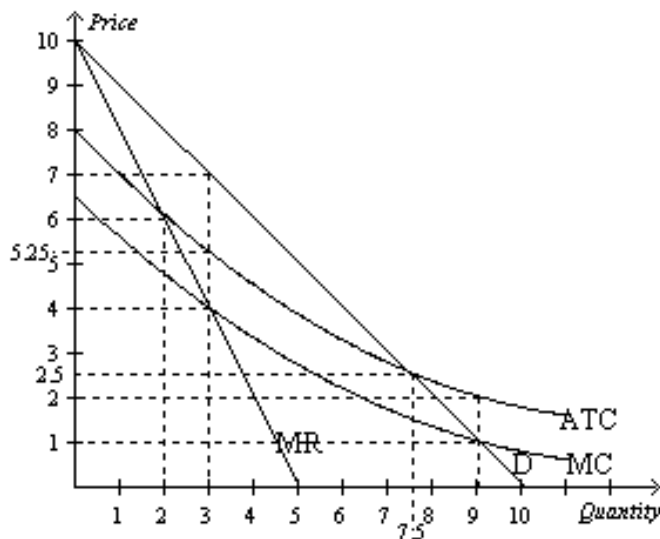
6. A monopoly creates a deadweight loss to society because it produces less output than the socially efficient level.

- a. True
- b. False

7. Price discrimination is prohibited by antitrust laws.

- a. True
- b. False

Figure 15-10



8. Refer to Figure 15-10. What type of monopoly is shown in the figure?

9. Refer to Figure 15-10. If the firm profit-maximizes, what amount of output will it produce?

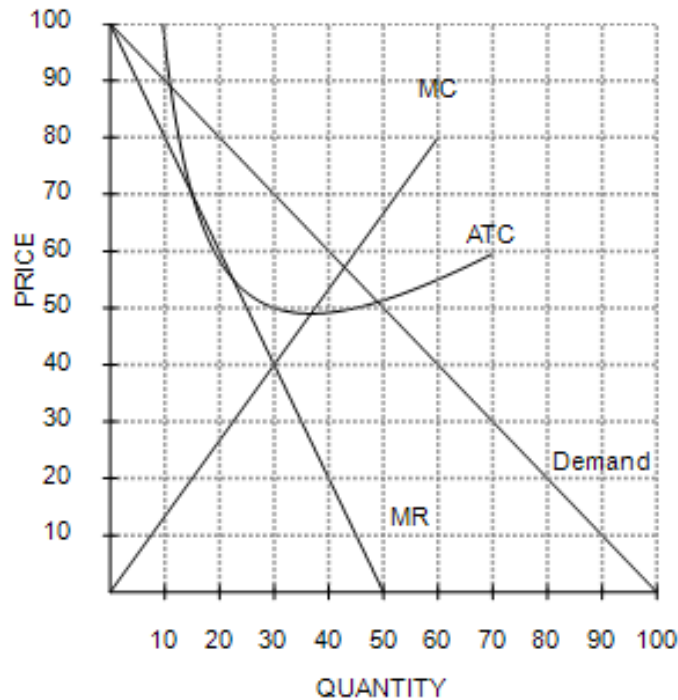
Indicate the answer choice that best completes the statement or answers the question.

10. For a monopolistically competitive firm,

- a. marginal revenue and price are the same.
- b. at the profit-maximizing quantity of output, marginal revenue equals marginal cost.
- c. at the profit-maximizing quantity of output, price equals marginal cost.
- d. at the profit-maximizing quantity of output, price equals the minimum of average total cost.

Figure 16-2

This figure depicts a situation in a monopolistically competitive market.



11. Refer to Figure 16-2. What price will the monopolistically competitive firm charge in this market?
- a. \$50
 - b. \$40
 - c. \$60
 - d. \$70
12. Refer to Figure 16-2. How much consumer surplus will be derived from the purchase of this product at the monopolistically competitive price?
- a. \$450
 - b. \$900
 - c. \$2,100
 - d. \$1,350
13. Refer to Figure 16-2. How much profit will the monopolistically competitive firm earn in this situation?
- a. \$0
 - b. \$2,100
 - c. \$600
 - d. \$900

14. Monopolistic competition is considered inefficient because
- price exceeds marginal cost.
 - output is excessive.
 - long-run profits are positive.
 - barriers to entry limit the number of firms in the market.

Indicate whether the statement is true or false.

15. Monopolistic competition is characterized by a few sellers offering similar products, whereas oligopoly is characterized by many sellers offering differentiated products.

- True
- False

16. Policymakers have generally come to accept the view that advertising enhances the efficiency of markets.

- True
- False

17. When a monopolistically competitive firm is in a long-run equilibrium, the values of marginal cost, average total cost, and price are all the same.

- True
- False

18. Monopolistically competitive firms, like monopoly firms, maximize their profits by charging a price that exceeds marginal cost.

- True
- False

Works Cited:

- Mankiw, Gregory. *Principles of Microeconomics*. 9th ed. Cengage Learning. 2021
- <https://www.ssc.wisc.edu/~ekelly/econ101/>