<u>Monopolistic Competition MC Practice</u>

Which of the following statements correctly identifies a difference between monopoly and monopolistic competition?

A. There is only one firm in monopoly, but there are a few firms in monopolistic competition.
B. There are many buyers in monopoly, but there are only a few buyers in monopolistic competition.
C. There are barriers to entry in monopoly, but not in monopolistic competition.
D. The monopoly firm charges a markup, but a monopolistically competitive firm does not.

Reason:

One of the differences between monopoly and monopolistic competition is that, unlike in monopoly, there are no barriers to entry in monopolistic competition and therefore there are many firms. The lack of barriers to entry drives economic profits to zero in the long run.

Lipstein's Muffins sells banana nut muffins in an industry that is monopolistically competitive. The industry is currently in long-run equilibrium.

Which of the following terms describes the difference between the cost-minimizing quantity and the quantity that Lipstein's Muffins actually produces?

A. Excess capacity
B. Allocative inefficiency
C. Surplus quantity
D. Deadweight loss
E. Zero economic profits

Reason: Excess capacity exists when a firm produces less than its minimum efficient scale. Excess capacity means that the firm can lower costs by expanding output.

Which of the following correctly describes economic profits and allocative efficiency for a firm in monopolistic competition in long-run equilibrium?

A. It earns zero economic profits and is allocatively neutral.
B. It earns zero economic profits and is allocatively efficient.
C. It earns negative economic profits and is allocatively efficient.
D. It earns zero economic profits and is allocatively inefficient.
E. It earns positive economic profits and is allocatively inefficient.

Reason: In long-run equilibrium in a market with no barriers to entry, there is zero economic profit because when firms enter, it drives economic profits to zero. Monopolistic competition is allocatively inefficient because the price charged for the good is greater than marginal cost.

Which of the following statements correctly identifies a difference between perfect competition and monopolistic competition?

A. In perfect competition, firms markup the price of their good, but in monopolistic competition firms cannot markup the price of their good.
B. In perfect competition, there are many buyers and many sellers, but in monopolistic competition there are few buyers and few sellers.
C. In perfect competition, firms cannot earn positive economic profits in the long run, but in monopolistic competition firms can earn positive economic profits in the long run.
D. In perfect competition, goods are identical, but goods are slightly differentiated in monopolistic competition.
E. In perfect competition, there are barriers to entry, but there are no barriers to entry in monopolistic competition.

Reason: Perfect competition and monopolistic competition are alike in that there are many buyers and sellers and there are no barriers to entry. But what makes an industry *monopolistically* competitive rather than *perfectly* competitive is that each seller sells a slightly differentiated good. For example, if there is monopolistic competition in the market for cheese, there might be many sellers of cheese but only one seller of the Too Gouda to Be True brand of cheese.

Which of the following is true for monopolistically competitive firms in long run equilibrium?

a. Price equals ATC
b. Price equals MC
c. They are productively efficient
d. Firms will eventually leave the industry since they are making no economic profit
e. Firms are maximizing total revenue

Reason: Monopolistically competitive firms make no economic profit in the long run. ATC is tangent to the demand curve at the profit maximizing quantity and equal to the price.

Dinosaur Inn is a hotel that differentiates itself from other hotels in a market with many buyers by offering rooms with different dinosaur themes, such as the T-Rex Relax room and the Bambiraptor Suite.

Which of the following will be true for the Dinosaur Inn when this industry is in long-run equilibrium?

A. Price equals marginal cost, there are negative economic profits, and it has excess capacity
B. Price exceeds marginal cost, there are no economic profits, and it has excess capacity.
C. Price is less than marginal revenue, there are negative economic profits, and there is no excess capacity.
D. Price exceeds marginal revenue, there are positive economic profits, and it has excess capacity.
E. Price is less than marginal revenue, there are positive economic profits, and there is no excess capacity.

Reason:

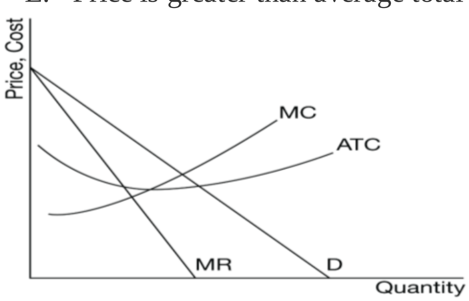
The description indicates that this firm operates in a monopolistically competitive industry because there are many sellers selling slightly differentiated goods. A monopolistically competitive firm sets a price higher than marginal cost because demand is higher than marginal revenue. Also, in the long run it produces a quantity where average total cost isn't minimized, so it has excess capacity. Finally, firm entry and exit leads to firms earning zero economic profits.

Which of the following is true of monopolistically competitive firms in long-run equilibrium?

A. Firms can earn positive economic profits.
B. Firms face a perfectly elastic demand curve.
C. Price equals marginal cost, which equals marginal revenue.
D. Price will always be above average total cost.
E. Marginal revenue equals marginal cost, and price equals average total cost.

Which of the following is true for a firm in long-run equilibrium in monopolistic competition?

A. Given barriers to entry, the firm earns economic profits in long-run equilibrium.
B. The firm is productively efficient, producing at the minimum of long-run average total cost.
C. Price equals marginal revenue and marginal cost.
D. There is neither allocative nor productive efficiency.
E. Price is greater than average total cost in long-run equilibrium.



Based on the information in the above graph describing a monopolistically competitive firm, which of the following is true?

A. The firm is productively efficient since marginal cost intersects average cost at the minimum of average cost.
B. When maximizing profits, this firm will have economic losses but will still continue to produce.
C. The firm will produce where marginal revenue equals marginal cost and will set its price to equal average total cost.
D. With the firm making economic profits, it can be expected that new firms will enter this market.
E. The firm will produce where demand is inelastic to capture all economies of scale.

Let P = price, MR = marginal revenue, MC = marginal cost, and ATC = average total cost. In monopolistic competition, which of the following most accurately describes the long-run equilibrium conditions for a firm?

A. P > ATC, MR = MC, and P > MC
B. P > ATC, MR > MC, and P = MC
C. P = ATC, MR = MC, and P > MC
D. P = ATC, MR = MC, and P = MC
E. P = ATC, MR > MC, and P > MC