Practice Test for Final

True/False
Indicate whether the statement is true or false.

___ 1. A public good or service can be consumed by paying and nonpaying customers alike.

___ 2. An example of a public good is a flood control project that protects all the homes and properties near a river.

___ 3. Monopolistic competition, like perfect competition, is a market structure in which firms can easily enter and leave the industry.

___ 4. Monopolistic competitors in long-run equilibrium will generally find that they are earning economic profits.

___ 5. Monopolistically competitive sellers are price takers.

___ 6. Monopolistically competitive industries have significant barriers to entry and exit.

___ 7. The U.S. commercial airline industry is a good example of an oligopolistic market.

___ 8. As in perfect and monopolistic competition, oligopoly firms cannot earn economic profits in the long run.

___ 9. Tariffs contribute to higher prices of textile products imported into the United States, but import quotas on textiles brought into the United States do not.

___ 10. A country has an absolute advantage over another if it can produce a good with fewer resources.

Multiple Choice
Identify the choice that best completes the statement or answers the question.

___ 11. Which of the following statements is true?
   a. Externalities can never refer to costs borne by the seller.
   b. Both external costs and external benefits can never exist for the same good.
   c. Externalities can never lead to under-production of a specific good.
   d. External benefits can never exceed external costs.

___ 12. If the production of a particular good involves significant external costs, to force the externality to be internalized the government might:
   a. impose a tax on production of the good in order to increase production.
   b. impose a tax on production of the good in order to decrease production.
   c. offer a subsidy for production of the good in order to increase production.
   d. offer a subsidy for production of the good in order to decrease production.

___ 13. When a firm's demand curve is tangent to its average total cost curve:
   a. the firm must be operating in a monopolistically competitive market.
   b. economic profits are zero.
   c. the firm must be earning economic profits.
   d. the firm must be incurring economic losses.
Exhibit 14-1
The following diagram depicts monopolistically competitive firms.

**Graph A**

**Graph B**

**14.** Refer to Exhibit 14-1. In Graph A, a profit-maximizing (loss-minimizing) firm will experience a ____ at output quantity ____.

- a. loss; \( q_1 \)
- b. loss; \( q_2 \)
- c. profit; \( q_1 \)
- d. profit; \( q_2 \)

**15.** If monopolistically competitive firms are earning economic profits, then in the transition to the long-run equilibrium:

- a. more firms will enter the industry.
- b. prices will tend to fall.
- c. each firm will produce a smaller quantity of output.
- d. all of the above will occur.

**16.** Monopolistic competition describes a situation where:

- a. a few firms produce a standardized product.
- b. a large number of firms produce differentiated products.
- c. a few firms produce differentiated products.
- d. there are substantial barriers to entry.
- e. both c. and d. are true.

**17.** The key characteristic of oligopoly markets is "interdependence among firms." This means that:

- a. the demand curve faced by each firm is perfectly elastic.
- b. each firm produces a product identical to its rivals.
- c. each firm must consider how its decisions will affect its competitors.
- d. firms will be able to earn above-normal profits in the long run.

**18.** What matters most in determining the efficient distribution of production over the world is

- a. absolute advantage.
- b. efficiency.
- c. the stock of resources.
- d. comparative advantage.
19. Which of the following would be expected if the tariff on foreign-produced automobiles was increased?
   a. The domestic price of automobiles would fall.
   b. The supply of foreign automobiles to the domestic market would be reduced, causing auto prices to rise.
   c. The number of unemployed workers in the domestic automobile industry would rise.
   d. The demand for foreign-produced automobiles would increase, causing the price of automobiles to increase in other nations.

20. Refer to Figure 30-3. After the tariff, domestic consumers
   a. gain area B of consumer surplus
   b. gain area C + D + E + F of consumer surplus
   c. lose area C + D + E + F of consumer surplus
   d. lose area C of consumer surplus

Short Answer

21. Various new cars are sold with sensors that automatically turn on the headlights at night or any low light conditions. Would these sensors create a positive externality or a negative externality? How?

22. Why do decision makers tend to ignore external costs? How can internalizing external costs move us closer to efficient levels of output?
23. Explain why broadcast television is considered a public good.

24. Define monopolistic competition.

25. Explain how losses of existing firms are reduced as some firms exit a monopolistically competitive industry due to economic losses.

26. Why does inefficiency exist in monopolistic competition?

27. What are the characteristics of oligopoly?

28. Why do most economists favor emissions taxes and transferable pollution rights over compliance standards as pollution deterrents?
29. Suppose that in the absence of trade, the U.S. price for bicycles was higher than the world price for bicycles. Would allowing international trade, mean that the U.S. would import or export bicycles? Who in the U.S. would benefit and who would lose with a free trade policy, and would the gains be greater than the losses?

30. What are the commonly used arguments for the use of tariffs?