

Chapter 13

Put into practice questions

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Which of the following are true and which are false? Explain your answer.

- a. A monopolist faces a perfectly elastic demand curve. FALSE
- b. A profit-maximizing monopolist produces where marginal revenue equals marginal cost. TRUE
- c. A monopolist can make abnormal profits in the short run only. FALSE
- d. A monopolist is a single seller of a product. TRUE

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Imagine that demand for a monopolist's products increases. Show the effect of this on the price, quantity, and profits of the firm, using a diagram.

Demand would shift outwards. Cost curves would not change. Price, output and abnormal profits will increase.

Which of the following statements are true and which are false?

- a. In a monopoly the marginal revenue is below and diverges from the demand curve. TRUE
- b. In a monopoly the average revenue is upward-sloping. FALSE
- c. In a monopoly one firm dominates the market. TRUE
- d. In a monopoly there is freedom of entry and exit in the long run. FALSE

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At which one of the following levels of output would the firm be:

- a. Productively efficient? Y
- b. Allocatively efficient? Z
- c. Profit maximise? X

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Which of the following are true and which are false? Explain your answer.

- a. When price discriminating a business will charge a higher price in the market where demand is price elastic. FALSE

- b. Price discrimination involves charging different prices for the same product. TRUE
- c. Barriers to entry enable a monopolist to earn normal profits in the long run. FALSE
- d. Brand loyalty makes demand more price elastic. FALSE

End of chapter put into practice questions

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Explain, using a diagram, the effect of an increase in fixed costs on the price and output outcome in monopoly.

Fixed costs do not affect marginal costs. This means there is no change in the profit maximizing price and output but the profits will be lower.

Explain, using a diagram, the effect of an increase in variable costs on the price and output outcomes in monopoly.

Marginal costs will be higher; this will lead to a higher price and lower profit maximizing output.

Show the effect of a fall in demand on the price and output decisions of a monopolist.

Demand curve shifts inwards. Will lead to lower profit maximizing price and output.

Show the effect of an increase in marginal costs on the pricing outcomes in a price inelastic and price elastic market for a price-discriminating business.

Higher marginal costs lead to a higher profit maximising price and lower output

Show the producer surplus area and the consumer surplus area for a profit-maximizing monopolist.

Producer surplus will show the difference between the marginal cost and price. Consumer surplus is shown by the difference between the price paid and the demand curve which shows what consumers are willing and able to pay.

Show on a monopoly diagram what would happen if the profit-maximizing monopolist was made to produce the highest possible output it could without making a loss.

This would produce where the price equals the average cost.

Show on a monopoly diagram what would happen if the profit-maximizing monopolist was made to produce where price equals marginal cost.

Lower price and higher output.

The price for a profit-maximizing is set where demand:

Answer is: price elastic