

A little quiz review on market structures

1. When would a buyer not be willing to spend a lot of time and energy researching the market?

A: When the savings to be made are small.

2. What kind of market runs most efficiently when one large firm supplies all of the output?

A: A natural monopoly

3. What kind of monopoly
does the U.S. government
generally permit?

A: Professional Sports Leagues

4. How does a company arrange to sell its products to people who are unwilling to pay the top price for them?

A: By charging different prices according to the group to which the buyer belongs

5. What is monopolistic competition?

A: Many companies selling similar but not identical products.

6. What are the different forms of nonprice competition?

A: Location, advertising,
physical characteristics,
service

7. What would happen to a monopolistically competitive firm that begins to charge an excessive price for its product?

A: Consumers will
substitute/buy a rival's
product

8. What happens to a product or service when the government deregulates it?

A: Some government regulations over the industry are eliminated.

9. Why are cartels so difficult to operate?

A: They work only if
members keep to their agreed
output.

10. Why would the government sometimes give monopoly power to a company by issuing a patent?

A: The company can then profit from their research without competition.

11. What are the conditions of perfect competition?

A: There are four:

1. Many buyers and sellers participate in the market
2. Sellers offer identical products
3. Buyers and sellers are well informed about products
4. Sellers are able to enter and exit the market freely

12. How does a natural monopoly function?

A: A single firm supplies all
the output.

13. Which industries have been deregulated in recent years?

A: Airlines, trucking,
banking

14. What is a commodity?
What are some examples?

A: A product that is the same
no matter who produces it.

Examples: petroleum,
notebook paper, milk, feed
for animals

15. What is an oligopoly?

A: Two to four firms
producing 70 to 80 percent
of the output.

16. What are the effects of the internet on business?

A: It has reduced the start up
costs

17. What are 3 examples of natural monopolies over the last 30 years?

A: Water, electricity, phone
service

18. Where would a monopolist set its production level at?

A: Where marginal cost is equal to marginal revenue.

19. What is a barrier to entry
and what are some
examples?

A: any factor that makes it difficult for a new firm to enter a market.

Example: To start up a clothing store you must rent a building, hire workers, and buy clothing to sell.

20. Why must firms
constantly innovate and
compete to earn profits in the
long term in a
monopolistically competitive
market?

A: The very competitive nature of the market they are in causes them to keep coming up with the next big thing in order to keep making profits.

21. How do market prices and quantities sold compare between competitive markets and monopolistic markets?

A: In a monopoly market, the market price will be greater than the price in a perfectly competitive market and the quantity sold will be less than the quantity sold in a perfectly competitive market.

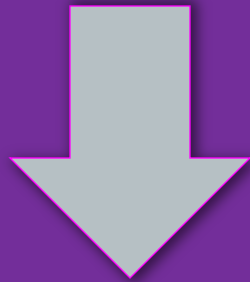
Monopoly Market

Competitive Market

PRICES



QUANTITY
SOLD



22. What does economies of scale mean?

A: It is factors that cause a producer's average cost per unit to fall as output rises.

Bonus Question

How much control over price do companies in a perfectly competitive market have?

Bonus Answer!

None!

Because many sellers compete to offer their commodities to buyers, intense competition forces prices down to the point where the prices just cover the sellers' costs of doing business.