Sample Final Exam Answer Key

1. D
2. C
3. B
4. B – Answer D is also correct
5. B
6. D
7. A
8. C
9. D
10. C
11. C
12. D
13. B
14. D
15. B
16. B
17. D
18. A
19. A
20. A
21. A
22. A
23. D
24. D
25. B
26. C
27. D
28. B
29. B
30. B
31. B
32. B
33. C
34. B
35. A
36. C
37. B
38. A
39. D
40. C

Short answer Question 1:

a) The unregulated monopolist will charge 0.80 and produce 5 (MC=MR). The deadweight loss is the area under the demand curve above the MC and to the right of the quantity produced.
b) With P=MC the monopolist will make a loss and will not continue in production in the long run. The loss will be the area from 0.3 to 0.4 out to a quantity of 10 (where MC=D).
c) With a P = 0.5 the monopolist will produce 8. It will make normal profit, neither an economic profit nor a loss.

Short Answer Question 2:

a) Under PC the price is equal to the firm's min ATC. Under monopolistic competition the price will be greater.
b) The ATC under PC will be at the min ATC point, under monopolistic competition the firm will be producing a smaller quantity at a higher ATC.
c) Under PC the market is both allocatively efficient (P=MC) and productively efficient (P= min ATC). Under monopolistic competition the firm is producing at less than min ATC and has excess capacity. Also P >MC. There is debate about the efficiency implications as people are willing to pay more for product variety.
d) Due to free entry firms make zero economic profits in the long run under both PC and monopolistic competition.

The answer should ideally include diagrams of the long run equilibrium positions of the firm under PC and monopolistic competition.