Sample Questions on Monopoly, Price Discrimination, and Peak Load Pricing

1. A natural monopoly is one where:
   a. the government grants the monopoly.
   B. the product is organically grown
   C. a natural resource, such as oil or fish, is being produced.
   D. economies of scale exist up to an output level that would satisfy market demand.

2. A monopolist always sells an amount of output so that,
   a. he operates on the elastic portion of the demand curve.
   B. he operates on the inelastic portion of the demand curve.
   C. he operates where demand has a unitary elasticity.
   D. either a or b may be true depending upon reasonably possible circumstances.

3. Economists would expect that eliminating patent protection for new ideas would:
   a. increase the volume of product sold that incorporates any one new idea.
   B. Decrease the number of new ideas that would be created.
   C. Both a and b are true.
   D. None of the above are true.

4. If the demand elasticity for the monopolist’s product is equal to 4 and the marginal revenue is 9, then price is:
   a. $18  b. $ 12  c. $2.25  d. $36

5. If the price is $12 and the elasticity of demand is 3, then marginal revenue will equal
   a. $9  b. $8  c. $15  d. $4.

6. If a natural monopoly faces a price ceiling equal to long run average cost evaluated at the output level demanded by consumers at that price, the result will be
   a. the monopoly will not cover its opportunity costs with its revenue.
   b. the quantity actually produced will be less than the quantity demanded (a shortage will result).
   c. the monopoly will be operating where marginal cost is below average cost.
   d. all of the above are true.

7. A price-discriminating monopolist should divide sales among markets so that:
   a. Average cost equals average revenue in each market.
   B. Price is the same in each market.
   C. Marginal revenue is the same in each market.
   D. Elasticity of demand is the same in each market.

8. Declining block pricing (second degree price discrimination) is characterized by
   a. charging a lower price to the group with the lower elasticity of demand.
   b. charging for units sold to individual purchasers so that the price at the margin is lower than the average price paid.
   c. charging a lower price to those purchasing as part of a large group.
   d. none of the above descriptions.
9. An example of intertemporal price discrimination is
   a. the large difference in prices between a new hardcover book and the paperback version of the
   same book.
   B. Charging higher prices at times when demand is higher.
   C. The use of coupons
   d. charging lower prices to senior citizens for certain products.

10. Factors favorable to price discrimination between groups of people include
    a. the good is easy to resell.
    b. the groups are easy to distinguish.
    c. the groups have virtually the same elasticity of demand.
    d. all of the above factors favor price discrimination.

11. Peak load pricing involves:
    a. Setting higher prices at those times when demand is greatest.
    B. Setting prices so that the elasticity of demand is the same at all times.
    C. Setting prices so that total revenue is the same at all times.
    D. Setting prices so that marginal revenue is the same at all times.

Key: 1-d, 2-a, 3-c, 4-b, 5-b, 6-c, 7-c, 8-b, 9-a, 10-b, 11-a