

DUE: (11/28, 11/30, 12/02 in discussion section)

Homework #5 ECON203 (Al-Sabea)

Name: _____

1. Monopolistic competition is characterized by a:
 - A) few dominant firms and low entry barriers.
 - B) large number of firms and substantial entry barriers.
 - C) large number of firms and low entry barriers.
 - D) few dominant firms and substantial entry barriers.

2. The monopolistically competitive seller's demand curve will become more elastic the:
 - A) more significant the barriers to entering the industry.
 - B) greater the degree of product differentiation.
 - C) larger the number of competitors.
 - D) smaller the number of competitors.

3. The price elasticity of a monopolistically competitive firm's demand curve varies:
 - A) inversely with the number of competitors and the degree of product differentiation.
 - B) directly with the number of competitors and the degree of product differentiation.
 - C) directly with the number of competitors, but inversely with the degree of product differentiation.
 - D) inversely with the number of competitors, but directly with the degree of product differentiation.

4. Oligopolistic industries are characterized by:
 - A) a few dominant firms and substantial entry barriers.
 - B) a few dominant firms and no barriers to entry.
 - C) a large number of firms and low entry barriers.
 - D) a few dominant firms and low entry barriers.

5. Which of the following is the best example of oligopoly?
 - A) women's dress manufacturing
 - B) automobile manufacturing
 - C) restaurants
 - D) cotton farming

6. Oligopoly is more difficult to analyze than other market models because:
 - A) the number of firms is so large that market behavior cannot be accurately predicted.
 - B) the marginal cost and marginal revenue curves of an oligopolist play no part in the determination of equilibrium price and quantity.
 - C) of mutual interdependence and the fact that oligopoly outcomes are less certain than in other market models.
 - D) unlike the firms of other market models, it cannot be assumed that oligopolists are profit maximizers.

7. Monopolistic Competition

a) How does a monopolistically competitive firm maximize profits/minimize losses in the short run. Depict graphically the following situations

- Economic profit
- Economic loss

b) What will be the level of economic profit that the monopolistic competitor will receive in the long run? Depict it graphically. What forces economic profit towards this level?

8. What are economic cartels? Explain why as number of firms increase in oligopolistic industry, it is harder to sustain collusive behavior among them? What happens to a cartel as number of firms increase?