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Subject: Business economics (micro)

Chapter: Unit 4

Category: Practice questions

MCQ

1. CT7 April 2011 Q14

Which of the following is NOT usually given as a reason why firms form strategic alliances?

A. New markets
B. Risk sharing
C. Capital pooling
D. Economies of scale

Answer – D

2. CT7 September 2011 Q3

Under the Cournot model of duopoly a firm:

A. attempts to maximise sales after assuming that the other firm will attemptto maximise sales.
B. assumes the other firm will produce a given output and then chooses its profit maximising output.
C. assumes the other firm's price is given and then chooses its profit maximising price.
D. will attempt to collude with the other firm so as to set a price and output level which will maximise industry level profits.

Answer - B

3. CT7 September 2011 Q9

A monopolist facing a downward sloping demand curve for its product will set its price in the region of the demand curve where the demand:

A. has price elasticity equal to minus unity.
B. is price inelastic.
C. is price elastic.
D. has price elasticity equal to zero.

Answer - C

4. CT7 April 2012 Q11

A perfectly competitive firm is producing at a level of output where short run marginal cost is rising and exceeds marginal revenue. What should the firm do to maximise its short run profits?

A. Reduce its output.
B. Raise its output.
C. Raise its price.
D. Reduce its price.

Answer – A

8. CT7 April 2013 Q13

Which of the following statements is FALSE?

A. For a firm under perfect competition in the short run, marginal revenue will be equal to the average revenue.

B. In an oligopoly industry, firms make decisions taking into account the possible reactions of their competitors.

C. For a monopolist facing a linear demand curve, average revenue is always less than marginal revenue.

D. A profit maximising monopoly firm with positive marginal costs of production charges a price in the region of the demand curve where demand is price elastic.

Answer - C

9. CT7 October 2015 Q10

The short run supply curve for a firm in a perfectly competitive industry is its:

A. average total cost curve.

B. average variable cost curve.

C. marginal cost curve above the lowest point of the average variable cost curve.

D. marginal cost curve above the lowest point of the average total cost curve

Answer - C

10. CT7 October 2015 Q12

Which of the following is NOT usually given as a reason why firms form strategic alliances?

A. risk sharing

B. entry into new markets

C. capital pooling

D. economies of scale

Answer - D

11. CT7 October 2015 Q13

Third degree price discrimination refers to the situation where:

A. different firms charge different prices for the same product.

B. a firm charges each customer the maximum price he/she is prepared to pay.

C. a firm charges customers different prices according to how much they purchase.

D. consumers are grouped into independent markets and a separate price is charged in each market.

Answer - D

12. CT7 April 2016 Q9

The managing director of a monopoly firm is given the following data:

Marginal revenue = £11, Marginal cost = £10

Average cost = £13, Average revenue = £15

To maximise profits the firm should:

A. reduce price and increase output.
B. reduce price and reduce output.
C. increase price and increase output.
D. increase price and reduce output.

Answer - A

13. CT7 April 2016 Q11

Which one of the following is NOT a feature of an industry characterised by monopolistic competition?

A. Some degree of monopoly power ensures that in the long run firms can make supernormal profits.
B. There is freedom of entry and exit into the industry in the long run.
C. Firms in the industry produce differentiated products.
D. Firms in the industry charge prices above their marginal costs of production.

Answer - A

14. CT7 September 2016 Q10

A perfectly competitive firm has fixed and variable costs of production. It produces output at the long-run profit maximising level. Which of the following statements is correct?

A. Marginal cost exceeds average total cost.
B. Marginal cost equals average variable cost.
C. Marginal cost exceeds average variable cost.
D. Marginal cost is less than average variable cost.

Answer - C

15. CT7 September 2016 Q11

Which of the following statements is FALSE?

A. Collusion may occur between firms in oligopolistic competition.
B. A firm in perfect competition faces a perfectly inelastic demand curve.
C. In monopolistic competition, supernormal profits cannot be made in the long run.
D. Price discrimination would allow the monopolist to produce the socially efficient level of output.

Answer - B

16. CT7 September 2016 Q13

When the owner of a patented product allows another firm to produce it for a fee, the arrangement is referred to as a:

A. merger.
B. franchise.
C. joint venture.
D. licensing agreement.

Answer - D

17. CT7 April 2017 Q12

Which of the following is NOT usually given as a reason why firms form strategic alliances?

A. entry into new markets
B. risk sharing
C. capital pooling
D. to reduce overall managerial remuneration

Answer – D

18. CT7 October 2017 Q10

Which of the following statements is FALSE?

A. In monopolistic competition, supernormal profits cannot be made in the long run.
B. Price discrimination is impossible under perfect competition.
C. Collusion may occur between firms in oligopolistic competition.
D. A firm in perfect competition faces a perfectly inelastic demand curve

Answer - D

19. CT7 October 2017 Q11

When a monopolist maximises profits, price exceeds marginal revenue. The difference between price and marginal revenue occurs because:

A. the firm has to charge a price higher than the marginal cost of producing the last unit.
B. any decision by the monopolist to sell an additional unit of output does not affect price.
C. the firm has to reduce the price on all units sold in order to sell the additional unit.
D. the law of diminishing returns directly affects the price of an imperfectly competitive firm's product.

Answer - C

20. CT7 October 2017 Q13

An implicit or explicit agreement amongst firms in an industry NOT to compete with each other is known as:

A. the dominant firm hypothesis.
B. collusion.
C. non-cooperative oligopoly.
D. product differentiation.

Answer - B

21. CT7 October 2017 Q17

The socially efficient output for a monopoly is at the point where:

A. the marginal cost curve cuts the marginal revenue curve.
B. the marginal cost curve cuts the demand curve.
C. the average cost curve cuts the marginal revenue curve.
D. the average cost curve cuts the demand curve.

Answer - B

22. CT7 April 2018 Q8

A firm is selling 1,000 units of output at a price of £20, with a marginal cost of £5 and average variable cost of £8 at that level of output. What is the supernormal profit that the monopoly firm is making?

A. £15,000
B. £12,000
C. £7,000
D. not possible to calculate from the information given

Answer - D

23. CT7 September 2018 Q9

A perfectly competitive firm has fixed and variable costs of production. It produces at the long run profit maximising level. Which of the following statements is correct?

A. Marginal cost exceeds average variable cost.
B. Marginal cost equals average variable cost.
C. Marginal cost is less than average variable cost.
D. Marginal cost exceeds average total cost.

Answer - A

24. CT7 September 2018 Q10

When a monopolist maximises profits, price exceeds marginal revenue. The difference between price and marginal revenue occurs because:

A. the firm has to charge a price higher than the marginal cost of producing the last unit.

B. any decision by the monopolist to sell an additional unit of output does not affect price.

C. the firm has to reduce the price on all previous units sold in order to sell the additional unit.

D. the law of diminishing returns directly affects the price of an imperfectly competitive firm's product.

Answer - C

25. CT7 September 2018 Q23

If the government imposes a minimum wage that is above the market equilibrium wage we would expect:

A. an increase in the quantity of labour demanded.

B. the labour supply curve to shift to the left.

C. an increase in the quantity of labour supplied.

D. the demand for the labour curve to shift to the left.

Answer - C

26. CB2 April 2019 Q8

A profit maximising monopoly facing a linear demand schedule and having positive marginal costs will set its price in the region of the demand curve where the absolute price elasticity of demand is:

A. greater than one.

B. equal to zero.

C. between zero and one.

D. one.

Answer – A

27. CB2 April 2019 Q9

Which one of the following statements about market structure is FALSE?

A. Under perfect competition, in the long run all firms make only normal profits.

B. Firms under monopolistic competition produce homogeneous products.

C. Under oligopoly, firms make decisions taking into account the possible reactions of their competitors.

D. A profit maximising monopoly will equate its marginal costs to its marginal revenue
Answer - B

28. CB2 April 2019 Q10

Which one of the following is NOT a feature of perfect competition?

A. Equilibrium price will be equal to marginal cost.
B. There are no barriers to entry.
C. The average revenue curve is greater than the marginal revenue curve.
D. Only normal profits are made in the long run.

Answer - C

29. CB2 April 2019 Q11

A managing director of a monopoly firm with constant marginal costs has the following data:

Average revenue = £15
Marginal revenue = £10
Marginal cost = £11
Average variable cost = £11
Average total cost = £13

To maximise profits/minimise losses in the short run the firm should:

A. increase price and reduce output.
B. reduce price and reduce output.
C. increase price and increase output.
D. close down.

Answer – A

29. CB2 September 2019 Q9

Which one of the following conditions indicates that a firm is operating in a perfectly competitive industry rather than a monopolistic industry?

A. Output of the firm is where marginal revenue equals marginal cost.
B. The cost curves of the firm are U-shaped.
C. Marginal revenue equals average revenue.
D. The marginal cost curve cuts the average cost curve at its minimum point.

Answer – C

30. CB2 September 2019 Q10

A profit maximising monopoly facing a linear demand schedule and with positive marginal costs will set its price in the region of the demand curve where the absolute price elasticity of demand is:

A. greater than unity.
B. equal to zero.
C. Between zero and unity.
D. unity.

Answer - A

31. CB2 September 2019 Q11

In the kinked demand curve theory of oligopoly the:

A. marginal revenue curve and the average revenue curve both have a vertical section (discontinuity).
B. marginal revenue curve has a vertical section (discontinuity).
C. average revenue curve has a vertical section (discontinuity).
D. marginal cost curve has a vertical section (discontinuity).

Answer – B

32. CB2 April 2020 Q12

Which one of the following characteristics does NOT apply to a firm in an industry characterised by perfect competition?

A. The firm can make losses in the short run.
B. There are barriers to entry into the market.
C. The firm can make only normal profits in the long run.
D. Marginal revenue is equal to average revenue.

Answer - B

33. CB2 April 2020 Q13

In the long run a firm in a monopolistic competition market structure will produce at:

A. the lowest point on its average total cost curve.
B. a point where average total cost is rising.
C. a point where average total cost is falling.
D. a point where average total cost is equal to marginal cost.

Answer – C

34. CB2 April 2020 Q14

The socially efficient output for a monopoly is at the point where:

A. the marginal cost curve cuts the marginal revenue curve.
B. the marginal cost curve cuts the demand curve.
C. the average cost curve cuts the marginal revenue curve.
D. the average cost curve cuts the demand curve.

Answer – B

35. CB2 September 2020 Q3

Under the Cournot model of duopoly, a firm:

A. attempts to maximise sales after assuming that the other firm will attempt to maximise sales.
B. assumes the other firm will produce a given output and then chooses its profit-maximising output.
C. assumes the other firm's price is given and then chooses its profit-maximising price.
D. will attempt to collude with the other firm so as to set a price and output level that will maximise industry level profits.

Answer - B

36. CB2 September 2020 Q4

Which of the following is NOT a feature of monopolistic competition?

A. Equilibrium price will be equal to marginal cost
B. There are no barriers to entry
C. Each firm produces a differentiated product
D. Only normal profits are made in the long run.

Answer – A

37. CB2 September 2020 Q8

A perfectly competitive firm is currently producing 2,000 units of Good X per week that are sold at £3 per unit. The firm's total cost is currently £12,000 per week of which £4,000 is the fixed cost per week. The marginal cost of production is £3 per unit. To maximise profits or minimise losses, the firm should:

A. expand its output in order to increase its total revenue.
B. shutdown and produce no units of Good X in order to minimise its losses.
C. reduce its output to 1,000 units of Good X in order to reduce its total cost of production by £6,000.
D. continue producing 2,000 units of Good X in the short run but not in the long run.

Answer- B

38. CB2 September 2020 Q9

The short run supply curve for a firm in a perfectly competitive industry is its:

A. average cost curve.
B. average variable cost curve.
C. marginal cost curve above the lowest point of the average total cost curve.
D. marginal cost curve above the lowest point of the average variable cost curve.

Answer – D

39. CB2 April 2021 Q5

In an industry characterised by perfect competition:

A. the average revenue is equal to marginal cost.
B. the industry demand curve must be perfectly elastic.
C. there may be difficulty for some firms in exiting the industry.
D. there are no supernormal profits in the short run.

Answer – A

40. CB2 April 2021 Q7

Which of the following features is NOT a typical characteristic of oligopoly?

A. A firm's fear that if it raises its price then the rise will be matched by competitors, but if it cuts its price then the cut will not be matched by competitors
B. Supernormal profits
C. A belief that one firm's actions has an influence on the actions of other firms
D. Advertising and other non-price competition.

Answer – A

41. CB2 April 2021 Q8

A monopoly firm faces a linear demand schedule, has positive but constant marginal costs and is currently producing where its marginal cost is below its marginal revenue. If the firm wishes to maximise profits then it should:

A. raise its price and increase output.
B. Lower its price and decrease output.
C. lower its price and increase output.
D. raise its price and decrease output.

Answer - C

42. CB2 April 2021 Q9

In the Cournot model of duopoly, when the two firms are at the equilibrium level of output:

A. the joint output of the two firms is greater than the monopoly output, but less than the perfect competition output.
B. the joint output of the two firms is identical to the monopoly output.
C. the joint output of the two firms is identical to the perfect competition output.
D. the output of the two firms will always be identical.

Answer – A

43. CB2 April 2021 Q10

Two firms operate in a duopoly but do not collude. Given the profit pay-off matrix of output options to firms A and B below, what is the dominant strategy for the firms?

		Firm B	
		Low	*High*
Firm A	*Low*	(50,50)	(10,70)
	High	(70,10)	(30,30)

Note: Profit pay-offs are (Profit A, Profit B) and 'high' and 'low' refer to the output decision.

A. Firm A – High; Firm B – Low
B. Firm A – High; Firm B – High
C. Firm A – Low; Firm B – Low
D. Firm A – Low; Firm B – High

Answer – B

44. CB2 April 2021 Q13

Other things being equal, a fall in a monopolist's fixed costs of production, which does not lead to new entrants, causes:

A. the market price to fall and the quantity supplied to rise.
B. the market price to fall and the quantity supplied to fall.
C. both market price and quantity supplied to fall.
D. no change to the market price or output.

Answer – D

45. CB2 September 2021 Q6

In a perfectly competitive market, a typical firm cannot affect the price of its output, and so it maximises profits when marginal cost is:

A. less than the price.
B. Greater than the price.
C. equal to the price.
D. below average variable cost.

Answer – C

46. CB2 September 2021 Q7

In the long run, a firm operating in an industry characterised by monopolistic competition will:

A. produce at the lowest point of its long run average cost curve.
B. have excess capacity.
C. produce at a socially efficient output level.
D. produce at the lowest point of its marginal cost curve.

Answer – B

47. CB2 September 2021 Q15

A firm producing carpets has average variable costs of production of £420, marginal costs of production of £500 and operates in a perfectly competitive market. A decrease in the demand for carpets that reduces the price from £600 to £400 will mean that in the short run the firm will:

A. shut down its production.
B. decrease its level of output but continue to produce carpets.
C. reduce its fixed costs of production.
D. increase its level of output.

Answer – A

48. CB2 September 2021 Q16

For a monopoly, price exceeds marginal revenue because:

A. the firm has to charge a price higher than the marginal cost of producing the last unit.
B. any decision by the monopolist to sell an additional unit of output does not affect price.
C. the firm has to reduce the price on all units sold in order to sell an additional unit.
D. of the law of diminishing returns.

Answer – C

49. CB2 April 2022 Q10

Which one of the following is NOT a feature of monopolistic competition?

A. In the long run, firms make only normal profits.
B. Price is equal to marginal cost.
C. Price is equal to average revenue.
D. An individual firm can raise its price without losing all its customers.

Answer – B

50. CB2 April 2022 Q11

Which one of the following statements about market structure is TRUE?

A. Under monopolistic competition, in the long run, all firms make only normal profits.
B. Firms under monopolistic competition produce homogeneous products.
C. Under oligopoly, firms make decisions without considering the possible reactions of their competitors.
D. Under monopoly, a profit maximising firm with positive marginal costs always produces where the demand is price inelastic.

Answer – A

51. CB2 April 2022 Q12

Two firms operate in a duopoly, but do not collude. Given the profit pay-off matrix of output options to Firms A and B below, what is the dominant strategy for the firms?

		Firm B	
		High	**Low**
Firm A	**High**	(60, 60)	(20, 90)
	Low	(90, 20)	(40, 40)

[Note: Profit pay-offs are '(profit A, profit B)', and 'high' and 'low' refer to the price decision of the firms.]

A. Firm A – High; Firm B – Low
B. Firm A – High; Firm B – High
C. Firm A – Low; Firm B – Low
D. Firm A – Low; Firm B – High.

Answer – C

52. CB2 April 2022 Q13

A firm operates in two markets, Market 1 and Market 2, and price discriminates when profit maximising. In such circumstances, its marginal revenue in Market 1 is equal to the:

A. price in Market 2.
B. price in Market 1.
C. Marginal revenue in Market 2.
D. average cost in Market 2.

Answer – C

53. CB2 September 2022 Q12

A firm is operating in a perfectly competitive industry and in long-run equilibrium. An increase in wages would lead to:

A. no change in the number of firms or profits.
B. an increase in the number of firms and increase in profit.
C. a reduction in the number of firms and potential losses.
D. a reduction in the number of firms and an increase in profit.

Answer – C

54. CB2 September 2022 Q13

The marginal revenue curve for a monopoly is:

A. also the demand curve.
B. above the demand curve.
C. below the demand curve.
D. perfectly horizontal.

Answer – C

55. CB2 April 2023 Q4

Which of the following does NOT necessarily apply to a perfectly competitive firm that produces in both the short run and the long run?

A. The firm will equate its marginal costs to its average revenue.
B. The firm will equate its marginal costs to its marginal revenue.
C. The firm will have an average revenue that exceeds its average variable costs of production.
D. The firm will make only normal profits.

Answer - D

56. CB2 April 2023 Q5

The prisoner's dilemma, applied to a situation involving two oligopolistic firms, illustrates that:

A. each firm will NOT take account of its rival's reactions when making its pricing decision.
B. the price set by one firm will NOT influence the price set by the other firm.
C. in avoiding the worst possible outcome, each of the firms will fail to reach the best possible outcome.
D. in avoiding the worst possible outcome, each of the firms will succeed in reaching the best possible outcome.

Answer – C

57. CB2 April 2023 Q6

The welfare consequences of third-degree price discrimination are to the benefit of:

A. the consumers of the good at the expense of the producers.
B. the producers of the good at the expense of the consumers.
C. both the consumers and producers.
D. neither the producers nor the consumers.

Answer – B and C

58. CB2 September 2023 Q7

A perfectly competitive firm will:

A. make supernormal profit in the long run.
B. face barriers when entering the industry.
C. charge a price equal to the marginal cost of the firm.
D. normally face a downward sloping demand curve.

Answer - C

59. CB2 September 2023 Q10

A firm operating in an oligopoly differs from one operating in perfect competition because:

A. under perfect competition there are only a few firms, whereas in an oligopoly there are many firms.
B. under perfect competition a firm experiences a downward sloping demand curve, but in an oligopoly the firm tends to have a perfectly elastic demand curve.
C. under perfect competition firms can only make normal profit in the long run, whereas in an oligopoly firms can make abnormal profit in the long run and short run.
D. under perfect competition firms may be able to dominate the market and restrict entry, whereas firms operating in an oligopoly tend to facilitate free entry.

Answer – C

60. CB2 April 2024 Q5

Company A is a manufacturer of high-quality men's suits. To boost revenues, it is considering third-degree price discrimination. Which statement best explains why such a strategy may not be possible to implement?

A. Company A is unable to place its customers in different age groups.
B. Company A is unable to offer customers different pricing options for the purchase of suits.
C. Company A is unable to put potential customers into different categories based on their occupation.
D. Company A is unable to keep its prices low if it were to increase production of its suits.

Answer – C

61. CB2 April 2024 Q11

Under the Cournot model of duopoly, equilibrium will occur when the:

A. price set by the two firms are equal.
B. marginal costs of the two firms are equal.
C. reaction functions of the two firms intersect.
D. total quantity produced by the two firms is equal to the monopoly output.

Answer – C

62. CB2 April 2024 Q13

Bigfirm is a monopolist in the market for household gas.

As part of a limit pricing strategy, Bigfirm is currently producing quantity Q and charging price P. However, NewCo has decided to enter the market.

What is the most likely reason for NewCo's decision?

A. NewCo has lower marginal costs than Bigfirm.
B. Bigfirm's marginal costs are above Bigfirm's marginal revenues.
C. NewCo's average costs are below price P.
D. Bigfirm's average costs are higher than price P.

Answer - C

Longer questions

1. CT7 April 2011 Q28

(i) Draw a diagram to show a profit maximising monopoly in long run equilibrium.

(ii) Use this diagram to:

a. Identify "deadweight welfare loss".

b. Explain why this firm will produce a less than socially efficient level of output.

2. CT7 April 2011 Q30

(i) Draw one fully labelled diagram to illustrate the long run equilibrium position of a firm under perfect competition and a firm under monopolistic competition. Assume that both firms have the same Long Run Average Total Cost Curve.

(ii) Identify, with reference to your diagram, the excess capacity relating to the firm in monopolistic competition.

(iii) Explain how, compared to perfect competition, the price and output decision under monopolistic competition affects the consumer.

3. CT7 September 2011 Q31

(i) Using supporting diagrams show how a profit maximising firm will practice third degree price discrimination by dividing its market into two distinct markets A and B with different demand elasticities. Show the price in the market with inelastic demand (Market A) and in the market with a more elastic demand (Market B) and the overall output of the firm made up of demand in both Market A and Market B.

(ii) Give an example of second degree and third degree price discrimination.

4. CT7 April 2012 Q28

A perfectly competitive firm sells Good X at a market price of £18 per unit. The firm's short run total fixed cost is £450 per day and the daily wage rate paid by the firm is £130 per employee. No other costs are involved in production.

The output of the firm varies with the level of employment as follows:

Number of Employees	*nits of output per day*
0	0
1	22
2	42
3	58
4	66
5	67

If the firm employs three workers per day, determine the firm's daily:
i.Total Revenue
ii.Total Cost

5. CT7 April 2013 Q27

Discuss four methods by which a firm producing laptop computers can attempt to differentiate its products from those of its competitors.

6. CT7 April 2013 Q28

(i) Explain what is meant by a perfectly contestable market.

(ii) Explain what the implications for a monopoly firm in a perfectly contestable market are with respect to its price and output decisions, compared to being in a non contestable market.

(iii) Explain what is meant by "sunk costs" and comment on how sunk costs can be a barrier to entry.

7. CT7 April 2013 Q29

(i) Explain with the aid of a diagram, how in the Cournot model of duopoly, Firm A which has positive marginal costs will decide on its equilibrium price and output for a given output level of its rival Firm B.

(ii) Comment on how in the Cournot equilibrium for a duopoly industry, the price and output compares with that of a monopoly industry.

8. CT7 September 2013 Q29

(i) Draw a diagram to show a typical monopolistically competitive firm, such as a coffee shop, which is wishing to operate but is making a loss. Your diagram should show all the

relevant cost and revenue curves and the area corresponding to the firm's losses.
(ii) Now assume that consumer demand for hot drinks increases. Show, with the use of a new diagram, the effect this will have on the market price and quantity traded in the short run, assuming that the firm now makes a profit.

9. CT7 September 2013 Q30

List four factors which favour collusion amongst oligopolistic firms.

10. CT7 September 2013 Q31

Describe two reasons why firms might wish to form strategic alliances.

11. CT7 September 2014 Q31

For each of the following, explain whether it represents a potentially contestable market.
(a) airline routes
(b) savings accounts
(c) hospital catering

12. CT7 April 2015 Q34

(i) Describe, with examples, what is meant by a horizontal strategic alliance. (ii) Describe three reasons why firms may decide to form a strategic alliance.

13. CT7 April 2015 Q36

The company Toshisoni sells a memory stick in Japan for ¥700 but it offers three memory sticks for ¥1800 and five memory sticks for ¥2500.

(i) Identify the type of price discrimination strategy that the company is exercising and explain the reason why some firms adopt this type of strategy.

(ii) Assuming that the profit maximising price is ¥600, draw a diagram showing the relevant curves for the type of pricing strategy in (i) above and label your diagram as follows:

Demand and marginal revenue curves labelled D and MR respectively; Average cost and marginal cost curves labelled AC and MC respectively; Label the quantities corresponding to the prices given above by Q, Q', Q".

(iii) On your diagram identify the price *Pn* and the quantity *Qn* at which the Firm would make normal profits.

Assume now that Toshisoni sells the memory stick at a single price of ¥600 in Japan and at a price equivalent to ¥900 in pounds in the UK.

(iv) Comment on the type of price discrimination that the company exercises in this case.

14. CT7 October 2015 Q30

A monopoly firm is making losses but has sufficient revenue to continue production in the short run.

(i) Draw a diagram to illustrate the short run profit maximising price and output for the firm.

Label the diagram as follows:

- AC1 average cost curve, MC1 marginal cost curve
- P1 price, Q1 quantity
- AVC1 average variable cost curve, C1 average cost
- MR1 marginal revenue curve, AR1 average revenue curve

(ii) Show the total loss on the diagram.

15. CT7 October 2015 Q31

Outline FIVE different forms of barriers to entry that enable monopolies to maintain their position as sole supplier to the market.

16. CT7 October 2015 Q32

Explain with the use of appropriate examples the difference between first and second degree price discrimination.

17. CT7 April 2016 Q31

(i) (Draw a diagram for a monopolistically competitive firm making normal profits including following curves R for average revenue, MR for marginal revenue, AC1 for average cost and MC1 for marginal cost. Denote the equilibrium price as P1, average cost as C1 and quantity as Q1.

(ii) Demonstrate on the diagram you have drawn in part (i) above, the short run impact of a fall in wages using new cost curves AC2 and MC2. Indicate the new price P2, new average cost C2 and new quantity Q2.

(iii) Explain the effect of the fall in wages in (ii) above on profits in the short run.

(iv) Explain what will happen to the demand and profits in the long run.

18. CT7 September 2016 Q27

Describe the difference between uncertainty and risk.

Describe, with the use of an example, how firms might seek to reduce uncertainty.

19. CT7 September 2016 Q28

Explain, with examples, TWO forms of product differentiation that a car manufacturer may use to differentiate its product from competitors.

20. CT7 September 2016 Q31

(i) Describe the term “loss leader” and the main factor that a firm should consider in using a “loss leader” as a successful pricing strategy.

(ii) Discuss how a sports clothing store may use a successful “loss leader” pricing strategy.

21. CT7 April 2017 Q29

The table below shows the annual profits for Company A and Company B which produce Good X. The profits vary according to whether each charges £15 or £10.

		B's price	
		£15	***£10***
A's price	***£15***	£12 million each	£6 million for Company A £18 million for Company B
	£10	£18 million for Company A £6 million for Company B	£8 million each

(i) State the price Company A should charge if it were to renege on an agreement previously reached with Company B to maximise their joint profits.

(ii) State the price Company A should charge if it makes its pricing decision completely independently of Company B.

(iii) Explain why this situation is known as a dominant strategy game.

(iv) State the Nash equilibrium in terms of the price and profits of both firms, if the game is played only once

22. CT7 April 2018 Q28

Draw a diagram for each of (i) and (ii) illustrating the profit maximising price and output of a firm operating under conditions of monopolistic competition to show the firm making:

(i) excess profits, clearly indicating the total excess profits.

(ii) a loss, clearly indicating the total loss.

You should label the curves on each diagram as: MR for Marginal Revenue, AR for Average Revenue, MC for Marginal Cost, AC for Average Cost. Price and Quantity should be labelled P1 and Q1 respectively and the average cost per unit as C1.

(iii) Explain whether the firm under monopolistic competition will make excess profits in the long run.

23. CT7 September 2018 Q31

(i) Describe a collusive oligopoly.

Two airlines are considering working together.

(ii) Discuss THREE factors which would create a more favourable environment for a successful collusion.

24. CB2 April 2019 Q27

(i) Describe how each firm in the Cournot model of oligopoly arrives at its demand curve.

(ii) Describe with the aid of a diagram how Firm A, in the Cournot model, will decide on its profit maximising price and output if Firm B decides to produce an output level of QB. In your diagram include the market demand curve (DM), the demand curve facing Firm A (DA), the marginal revenue of Firm A (MRA) and the marginal cost of Firm A (MCA).

25. CB2 April 2019 Q28

Describe with the aid of a diagram (or diagrams) why a firm operating in a monopolistic competition environment will make only normal profits in the long run, even though it is making excess profits in the short run.

26. CB2 September 2019 Q30

Describe with the aid of a diagram (or diagrams) why a firm operating in a monopolistic competition environment will make only normal profits in the long run, even though it is making excess profits in the short run.

27. CB2 September 2020 Q27

(i) Describe the characteristics of an oligopolistic market structure.

(ii) Explain four characteristics of an oligopolistic market structure that differ from the characteristics of a monopoly market structure.

28. CB2 April 2021 Q30

Discuss the relevant barriers to entry that new entrants would be likely to face when seeking to enter the banking sector.

29. CB2 April 2021 Q35

Discuss the similarities and differences between monopolistic competition and monopoly as market structures.

In your answer, you should include the likely advantages and disadvantages to consumers from these differing market structures.

30. CB2 September 2022 Q30

Explain, with reference to the characteristics of the specific market, why a gymnasium is unlikely to be associated with a model of perfect competition.

31. CB2 April 2020 Q30

(i) Define price discrimination.

(ii) Explain why price discrimination can be more effectively used in the medical treatment (service) market in comparison to the pharmaceutical (goods) market.

32. CB2 April 2020 Q31

Explain why perfect competition and economies of scale are incompatible in practice.

33. CB2 April 2022 Q35

(i) Discuss the relative merits, for users of a public transport service, of the operator existing as a monopoly rather than being monopolistically competitive.

(ii) Discuss why the cost of exit may influence the type of public transport that firms may select when entering the public transport market. Your answer should refer to buses and trams as examples.

34. CB2 April 2023 Q30

The household water supply market is typically characterised by a monopoly supplier. Explain the reasons for this and discuss what measures governments can take to ensure that consumers are not excessively overcharged.

35. CB2 April 2023 Q35

(i) Explain the difference between the Bertrand model of oligopoly and the Cournot model of oligopoly. Explain which model can best explain 'price wars' that occasionally take place between supermarkets.

(ii) Explain, with the aid of a numerical example, how game theory can result in two firms acting in isolation, both setting high outputs that are not in their mutual interests. Your answer should indicate how both firms agreeing to lower output can lead to higher joint profits.

36. CB2 April 2024 Q28

Outline the long run relationship between the marginal cost and price and between the average cost and price, for each of the following market structures. Assume that under a monopoly the firm is able to earn excess profits.

(i) Perfect competition.

(ii) Monopolistic competition.

(iii) Monopoly.

37. CB2 April 2024 Q33

(i) A new coffee shop chain called Superior enters the retail coffee market that is a monopolistically competitive market. It aims to charge significantly above the industry average per cup of coffee consumed in its shops. Explain how it may differentiate its product to make excess profits in the short run.

(ii) Assume that the coffee chain Superior succeeds in making excess profits in the short run. Discuss what is likely to happen to its demand, price and output over the longer term.