4. Imperfect Competition

Starter Quiz ·

AP Microeconomics Name: _____ Score: _____

1. A firm with market power faces a demand curve that is:

   ☐ upward-sloping

   ☐ horizontal (flat)

   ☐ vertical

   ☐ downward-sloping

2. A monopoly is a **price maker**, which means it:

   ☐ chooses its price by choosing its output

   ☐ must accept the market price

   ☐ cannot earn a profit

   ☐ always charges marginal cost

3. Price discrimination means:

   ☐ setting price equal to marginal cost

   ☐ charging different buyers different prices for the same good

   ☐ refusing to serve some buyers

   ☐ charging everyone the same low price

4. Monopolistic competition has:

   ☐ many firms selling differentiated products

   ☐ one firm with no substitutes

   ☐ identical products from every firm

   ☐ a few interdependent firms

5. The defining feature of an oligopoly is:

   ☐ mutual interdependence between a few firms

   ☐ thousands of tiny firms

   ☐ identical products only

   ☐ no barriers to entry

6. A price taker can raise its price above the market price and still sell everything.

   ☐ True ☐ False

7. For a monopoly, marginal revenue is below the price because it must cut the price on every unit to sell more.

   ☐ True ☐ False

8. Select **all** conditions needed for price discrimination.

   ☐ buyers can be sorted by willingness to pay

   ☐ the market is perfectly competitive

   ☐ the firm has market power

   ☐ resale can be prevented

   Tick every correct option.

9. In long-run equilibrium, a monopolistically competitive firm produces at the lowest point of its ATC curve.

   ☐ True ☐ False

10. At a Nash equilibrium, no firm can improve its payoff by changing only its own choice.

    ☐ True ☐ False

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Answers ·

AP Microeconomics

1. **downward-sloping**

   To sell more it must lower its price – a downward-sloping demand curve.

2. **chooses its price by choosing its output**

   With no rivals, the monopolist picks the point on the demand curve that maximises profit.

3. **charging different buyers different prices for the same good**

   It bases each buyer's price on their willingness to pay.

4. **many firms selling differentiated products**

   Many firms compete, but each product is a little different – giving slight market power.

5. **mutual interdependence between a few firms**

   With only a few firms, each must consider how rivals will react.

6. **False**

   A price taker must accept the market price; charging more loses all its buyers.

7. **True**

   Lowering the price on all units makes the extra revenue (MR) smaller than the price.

8. **buyers can be sorted by willingness to pay; the firm has market power; resale can be prevented**

   Market power, sortable buyers, and no resale – perfect competition rules it out.

9. **False**

   It produces to the left of minimum ATC, leaving excess capacity.

10. **True**

    That is exactly what makes a Nash equilibrium stable.