

IB Economics – Theory of the Firm I

Exam Practice Questions: 1.19 Monopolies



1.19 MONOPOLIES: EXAM PRACTICE QUESTIONS

Answer the questions that follow.

1. IB ECONOMICS PAPER 1 EXAMINATION QUESTIONS

1. Explain why each individual firm operating in perfect competition is a price taker. **[10 marks]**
2. Compare and contrast the relationship between the demand curve, price, marginal revenue and average revenue for firms which have market power and firms which do not have market power. **[10 marks]**
3. Compare and contrast social welfare in monopoly and perfectly competitive markets in the long run. **[15 marks]**
4. Evaluate the view that perfect competition is always a more efficient market structure than a monopoly market. **[15 marks]**
5. Compare and contrast levels of output **and** pricing for profit maximising firms in perfect competition **and** monopoly firms. **[15 marks]**
6. Use the concept of barriers to entry to explain the short run and long run equilibrium position for the monopoly firm. **[10 marks]**
7. Evaluate the following statement: "Monopolies always result in undesirable social effects". **[15 marks]**
8. Explain the concept of natural monopoly. **[10 marks]**
9. "In a monopoly market structure the only stakeholders that can benefit are producers themselves"; evaluate this statement. **[15 marks]**
10. "Monopolies can be inefficient but they can offer benefits to society that firms in perfect competition cannot"; evaluate this statement. **[15 marks]**

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11. Explain that a monopoly firm has features that are desirable and features that are undesirable. **[10 marks]**
12. “Perfect competition is preferable to monopoly markets”; evaluate this statement. **[15 marks]**
13. Evaluate regulation and legislation in reducing monopoly power. **[15 marks]**
14. “Governments should always act to reduce monopoly power by increasing competition”; evaluate this statement. **[15 marks]**
15. Explain how a monopolist decides pricing and level of output when they have the goal of maximising revenues. **[10 marks]**

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2. IB ECONOMICS PAPER 2 EXAMINATION QUESTIONS

Question ONE

[25 marks]

The table below is for an individual firm and provides price, output and cost data.

Price (\$)	Quantity	Marginal cost (\$)	Total revenue (\$)	Marginal revenue (\$)	Average revenue (\$)
7	1	5			
6	2	4			
5	3	3			
4	4	2			
3	5	3			
2	6	6			
1	7	8			

- Calculate the missing total revenue, marginal revenue and average revenue figures in the table above. **[3 marks]**
- Plot marginal cost, marginal revenue and average revenue, and show the demand curve for the firm. **[4 marks]**
- Identify the one market structure that could not be reflected in the data above. **[1 mark]**
- Outline how price elasticity of demand changes along the monopolist's demand curve. **[3 marks]**
- Using the concept of price elasticity of demand, determine the maximum output the monopoly firm would produce, and outline why this is the firm's maximum level of output. **[3 marks]**
- Determine the profit maximising and revenue maximising levels of output for the firm. Identify these two points on your graph. **[3 marks]**
- Outline the three assumptions characterising a monopoly firm/market. **[3 marks]**

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- h. Average total costs for the firm are \$3 at the profit maximising level of output. Determine the total and per unit economic profit/loss at this point. **[2 marks]**

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