

# IB Economics – Theory of the Firm I

## Exam Practice Questions: 1.20 Monopolistic Competition



### 1.20 MONOPOLISTIC COMPETITION: EXAM PRACTICE QUESTIONS

Answer the questions that follow.

#### 1. IB ECONOMICS PAPER 1 EXAMINATION QUESTIONS

1. Explain the relationship between price **and** the demand curves, marginal and average revenues for firms that have a degree of market power **and** those that do not. **[10 marks]**
2. Explain how product differentiation produces similarly shaped demand and marginal revenue curves for firms in monopolistic competition as monopoly firms. **[10 marks]**
3. Discuss the following statement: "Monopolistic competition allows for consumer choice, therefore it is preferable to perfect competition." **[15 marks]**
4. Explain how the short-run and long-run equilibrium positions for monopolistic competitors differ from each other. **[10 marks]**
5. Evaluate the following statement: "Monopolistic competitors and firms in perfect competition are both equally efficient as zero economic profit is earned in the long-run." **[15 marks]**
6. Explain whether allocative **and** productive efficiency can ever be achieved by firms in monopolistically competitive markets. **[10 marks]**
7. Compare and contrast monopolistic competition with perfect competition. **[15 marks]**
8. Explain how the long-run equilibrium positions of firms in monopolistic competition **and** monopolists differ from each other. **[10 marks]**

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### 2. IB ECONOMICS PAPER 3 EXAMINATION QUESTIONS

#### QUESTION ONE

[25 MARKS]

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

Output (units)	Price (\$)	ATC (\$)	TC (\$)	MC (\$)	TR (\$)	MR (\$)	AR (\$)
1	10	15.0					
2	9	9.5					
3	8	7.3					
4	7	6.0					
5	6	5.2					
6	5	5.2					
7	4	5.1					
8	3	5.3					

- a. Calculate the missing data in the table above. [6 marks]
- b. Identify the one market structure that could not be reflected in the data above and state the reason for this. [2 marks]
- c. Determine the profit maximising level of output. [2 marks]
- d. Determine the price the good is sold for at the profit maximising level of output. [2 marks]
- e. Determine the profit per unit at the profit maximising level of output. [2 marks]
- f. Using the concept of price elasticity of demand, determine the maximum output the firm would produce, and outline why this is the firm's maximum level of output. [3 marks]
- g. Determine the revenue maximising levels of output for the firm. [2 marks]

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- h. Outline the four assumptions characterising monopolistic competition. **[4 marks]**
- i. Assume the firm is maximising profits. Determine the total economic profit/loss at this point. **[2 marks]**

Source: [www.IBDeconomics.com](http://www.IBDeconomics.com)