

## Section 2: Quiz Monopoly

### A. Key Terms

Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

#### Column I

- \_\_\_ 1. a single seller in a market
- \_\_\_ 2. a producer's average cost drops as production rises
- \_\_\_ 3. a company has exclusive rights to sell a new good or service for a specific time period
- \_\_\_ 4. a single seller has the rights to sell goods in an exclusive market
- \_\_\_ 5. consumers are divided into groups and each is charged differently

#### Column II

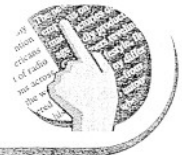
- a. economies of scale
- b. franchise
- c. monopoly
- d. patent
- e. price discrimination

### B. Main Ideas

Write the letter of the correct ending in the blank provided.

- \_\_\_ 6. A natural monopoly is
  - a. any situation in which only a single seller is allowed to exist.
  - b. a monopoly in which the goods produced are agricultural resources.
  - c. an industry that runs best when one firm produces all the output.
  - d. an industry in which the government provides all the output.
- \_\_\_ 7. A government's purpose in giving an antitrust exemption to sports leagues is to
  - a. increase the league owners' profits.
  - b. prevent other cities from financing competing sports.
  - c. prevent the athletes from starting new teams.
  - d. keep team play orderly and stable.
- \_\_\_ 8. A discounted airline fare is a price discrimination that can be offered because
  - a. people do not necessarily want to go where the discounts will allow them to go.
  - b. vacationers are willing to put up with the restrictions that the airlines impose.
  - c. people who fly on business want the price discounts but do not qualify.
  - d. senior citizens qualify for discounts on certain types of flights but not on others.
- \_\_\_ 9. Patents are a form of monopoly that society allows because they
  - a. encourage firms to research and develop new products that benefit society as a whole.
  - b. maintain an orderly way for companies to make a lot of money.
  - c. give companies the right to decide who will be allowed to use their products.
  - d. set up a situation in which only a few manufacturers can control an industry.
- \_\_\_ 10. The controller of a monopoly sets the price of goods by charging
  - a. as much as possible regardless of the amount sold.
  - b. only a small amount over cost.
  - c. the price at which the profit is maximized.
  - d. less than they would charge if they did not have a monopoly.

Section 2: Guided Reading and Review  
**Monopoly**



**A. As You Read**

As you read Section 2, supply the missing information in the spaces provided.

**In the Monopolist Market**

**Natural Monopolies**

1. Why they exist \_\_\_\_\_  
\_\_\_\_\_
2. Two examples \_\_\_\_\_  
\_\_\_\_\_
3. Advantage of \_\_\_\_\_  
\_\_\_\_\_
4. Government role in \_\_\_\_\_  
\_\_\_\_\_

**Government Monopolies**

5. Type set up by patents \_\_\_\_\_
6. Why government grants patented monopolies \_\_\_\_\_
7. Example of an industrial monopoly \_\_\_\_\_
8. Two examples of government monopolies by license \_\_\_\_\_

**Production and Pricing**

9. Effect of a monopolist's price increase  
\_\_\_\_\_  
\_\_\_\_\_
10. Relationship between price and marginal revenue when a monopolist cuts the price to sell more  
\_\_\_\_\_  
\_\_\_\_\_
11. How a monopolist maximizes profits  
\_\_\_\_\_  
\_\_\_\_\_

**B. Reviewing Key Terms**

Complete each sentence by writing the correct key term in the blank.

12. In a market with only one seller, that seller has a \_\_\_\_\_.
13. Characteristics that cause a producer's average cost to drop as production rises are \_\_\_\_\_.
14. A contract issued by a local authority that gives a single firm the right to sell its goods within an exclusive market is a \_\_\_\_\_.
15. A monopoly offering targeted discounts is practicing \_\_\_\_\_.

# Economic Detective

## The Business of Buck Bidness



### Problem

Buck Bidness has a passion for gardening. His experiments with plants and gardening products have made him a bit of an inventor. Like most folks, however, Buck has a full-time job, which takes time away from his gardening adventures. For the past five years, he has worked on the assembly line at Swoopenzoom Aircraft. Before that, he worked at Divem and Stratstream, two of the other three major aircraft manufacturers.



### Investigation 1

Buck is restless in his job at Swoopenzoom. He wants more money and personal independence. He buys a few shares of stock in the company every payday and has tried to sell management an original idea to improve gearing on their planes. Managers say his idea won't work. Buck wishes he could start his own company to prove them wrong but knows he could not raise enough capital to build airplanes. If he tries to sell his idea to Divem or Stratstream, he could lose his job.

1. In what market structure does Swoopenzoom operate? \_\_\_\_\_
2. How does Buck participate in a perfect competition market structure? \_\_\_\_\_
3. What barrier to entry does Buck recognize in the aircraft market? \_\_\_\_\_



### Investigation 2

Buck buries his job frustrations in his garden on the weekends. The fertilizer he created in his garage is working well, and it seems to repel garden parasites. After further tests, Buck decides he has invented a fantastic bug killer and applies to the government for a patent. While he waits for the patent on his "Surswat" formula to be approved, Buck studies gardening magazines and agricultural newsletters for marketing ideas. He decides to offer discounts to wheat farmers, whose battle with grasshoppers might create a very large market. Buck's hopes soar

until notice comes from the government that his formula is under patent for a product already on the market.

1. (a) What kind of market structure does Buck hope to enter with Surswat? \_\_\_\_\_  
 (b) How does he seek to enter this market? \_\_\_\_\_
2. In what way does Buck plan to use price discrimination? \_\_\_\_\_



### Investigation 3

Buck's sister, Clarette, comes over to help him clean his garage after his big disappointment with Surswat. Like Buck, Clarette likes to make home formulas, and her cleaning liquid whisks away rust, oil, corrosion, and other grime throughout Buck's garage. Buck buys the formula from his sister, applies for and receives a patent, and "Clar-up" becomes his new business venture. Buck sells his Swoopenzoom stock and uses the money to buy ingredients and packaging. Two big discount chains agree to stock Clar-up, and sales soar. Other cleaning companies soon offer products similar to Clar-up, but Buck is able to keep many loyal customers through radio advertising by adding a new fragrance to his cleaning formula.

1. (a) At what point does Buck again participate in perfect competition? \_\_\_\_\_  
 (b) In what kind of market structure does Buck operate after Clar-up's success? \_\_\_\_\_
2. How does Buck practice nonprice competition? \_\_\_\_\_

Name \_\_\_\_\_  
Date \_\_\_\_\_



## ECONOMIC SKILLS LAB ANALYZING COMPETITION IN SELECTED INDUSTRIES

### The Concentration Ratio

The table below presents approximate figures for select U.S. industries. Examine the profile of industries and answer the questions that follow.

PRODUCT SHIPMENTS OF LARGE MANUFACTURERS			
Industry	Number of Companies	Percentage Value of Industry's Output—4 Largest Firms (Concentration Ratio)	Percentage Value of Industry's Output—50 Largest Firms
Automobile parts and accessories	2,714	48	79
Computers	803	45	92
Printing	28,485	7	24
Wood furniture	2,636	20	60
Milk	525	22	88
Dresses	3,943	11	45

Source: Economic Census

- Which two industries in the above list have the highest concentration ratio?  
\_\_\_\_\_  
\_\_\_\_\_
- Why do you think these industries are dominated by a few large companies?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- Which two industries have the lowest concentration ratio?  
\_\_\_\_\_  
\_\_\_\_\_
- Why aren't these industries dominated by a few large firms?  
\_\_\_\_\_  
\_\_\_\_\_
- Explain this statement: "It is not the number of firms in an industry that makes it an oligopoly, but rather the percentage of output of sales accounted for by a few large companies."  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_