

Section 1: Guided Reading and Review

Perfect Competition



A. As You Read

As you read Section 1, supply the missing cause or effect in the spaces provided.

The Perfect Market Structure	
<p>1. Cause: _____ _____</p>	<p>1. Effect: The market determines price without influence from suppliers or consumers.</p>
<p>2. Cause: _____ _____</p>	<p>2. Effect: Identical products are key to perfect competition.</p>
<p>3. Cause: Entrepreneurs are less likely to enter a market with high start-up costs.</p>	<p>3. Effect: _____ _____</p>
<p>4. Cause: Sometimes firms cannot make enough to stay in business.</p>	<p>4. Effect: _____ _____</p>
<p>5. Cause: _____ _____</p>	<p>5. Effect: Prices are forced down to the point where they just cover the seller's costs of doing business.</p>
<p>6. Cause: _____ _____</p>	<p>6. Effect: Producers adjust their output decisions based on their most efficient use of available land, labor, and capital.</p>

B. Reviewing Key Terms

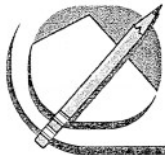
Briefly define or identify each of the following.

7. perfect competition _____

8. commodity _____

9. barrier to entry _____

10. start-up costs _____



Section 1: Quiz

Perfect Competition

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. expenses a new business must pay before the first product reaches the customer
- _____ 2. factors that make it difficult for new firms to enter a market
- _____ 3. a product that is considered the same regardless of who makes or sells it
- _____ 4. a market with many well-informed buyers and sellers, identical products, and free entry and exit

Column II

- a. perfect competition
- b. barriers to entry
- c. start-up costs
- d. commodity

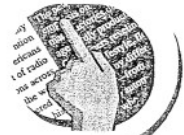
B. Main Ideas

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

- _____ 5. Why does a perfectly competitive market require many participants as both buyers and sellers?
 - a. because the merchandise must be uniform
 - b. so that no individual can control the price
 - c. in order to maintain quality over the goods
 - d. so that both buyer and seller have the same information
- _____ 6. Milk is considered a commodity because it is which of the following?
 - a. an inexpensive product
 - b. a product that can be bought in many different ways
 - c. the same product regardless of who sells it
 - d. an agricultural product
- _____ 7. What is the relationship between start-up costs and a competitive market?
 - a. Markets with high start-up costs are less likely to be perfectly competitive.
 - b. Markets with high start-up costs are more likely to be perfectly competitive.
 - c. Low start-up costs are likely to make a market less competitive.
 - d. There is no consistent relationship between start-up costs and the competitiveness of a market.
- _____ 8. Which of the following is characteristic of a competitive market?
 - a. high costs
 - b. low output
 - c. inexhaustible supply
 - d. efficiency
- _____ 9. How does a perfect market influence output?
 - a. Each firm adjusts its output so that its costs, including profit, are covered.
 - b. Each firm makes its output as large as possible even though some goods are not sold.
 - c. Different firms make different amounts of goods, but some make a profit and others do not.
 - d. Different firms each strive to make more goods and capture more of the market.
- _____ 10. Why are there actually relatively few markets in which there is perfect competition?
 - a. Lack of demand keeps buyers from the market.
 - b. High prices keep companies in the market longer than necessary.
 - c. Barriers keep companies from entering the market freely.
 - d. Buyers will not pay more for perfect competition.

Section 3: Guided Reading and Review

Monopolistic Competition and Oligopoly



CHAPTER 7

A. As You Read

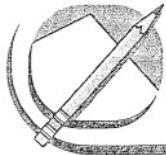
As you read Section 3, fill in the information requested on the charts.

Monopolistic Competition Market Structures	
Defining Conditions	1. _____ 2. _____ 3. _____ 4. _____
Forms of Nonprice Competition	5. _____ 6. _____ 7. _____ 8. _____
Price-Output Relationship	9. _____
Curbs on High Profits	10. _____ 11. _____
Consumer Advantages	12. _____
Oligopoly	
Conditions Encouraging Formation	13. _____ 14. _____ 15. _____
Practices that Concern Government	16. _____ 17. _____ 18. _____

B. Reviewing Key Terms

Read the statements below. In the space provided, write T if the statement is true or F if it is false.

- _____ 19. Firms selling identical products create *monopolistic competition*.
- _____ 20. Providing better customer service, introducing a new lipstick color, and sophisticated advertising are examples of *nonprice competition*.
- _____ 21. *Price fixing* is an outcome of collusion.
- _____ 22. A *cartel* is most successful when each member produces as much product as possible.



Section 3: Quiz

Monopolistic Competition and Oligopoly

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. many companies in an open market selling similar products
- ___ 2. a market structure dominated by a few large, profitable firms
- ___ 3. an agreement among firms to sell at the same or very similar prices
- ___ 4. a formal organization of producers that agree to coordinate prices and production

Column II

- a. cartel
- b. oligopoly
- c. price fixing
- d. monopolistic competition

B. Main Ideas

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

- ___ 5. If two shops sell the same merchandise but one offers a higher level of service, the service distinction is a form of
 - a. price fixing.
 - b. nonprice competition.
 - c. choice among substitute products.
 - d. local competition.
- ___ 6. An agreement among members of an oligopoly to set prices and production levels is called
 - a. price leadership.
 - b. competition.
 - c. collusion.
 - d. imperfect monopoly.
- ___ 7. A major characteristic of monopolistic competition is that prices will be
 - a. higher than in perfect competition.
 - b. lower than in perfect competition.
 - c. higher than in a true monopoly.
 - d. unrelated to the type of competition.
- ___ 8. In monopolistic competition, profits well in excess of costs are unlikely because
 - a. nonprice competition only works for the short term.
 - b. customers always return to the product that is least expensive, even if the quality of that product is much lower.
 - c. excess output can be maintained only for short periods.
 - d. established rivals and new firms would lure customers away with slightly different and/or cheaper products.
- ___ 9. A cartel is able to survive only if
 - a. government regulations permit it.
 - b. every member keeps to the agreed output levels.
 - c. members are scrupulous about where they sell goods.
 - d. members use advertising to differentiate their goods.
- ___ 10. The main difference between perfect competition and monopolistic competition is that
 - a. in perfect competition the prices are set by the government.
 - b. in perfect competition the buyer is free to buy from any seller he or she chooses.
 - c. in monopolistic competition there are fewer sellers and more buyers.
 - d. in monopolistic competition sellers can profit from the differences between their products and other products.