

Level I of the CFA® Exam

Questions - Economics

Offered by AnalystPrep

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Learning Module 1: Firm & Market Structures

Q.1420 Which of the following return measures considers the implicit cost or opportunity cost of resources supplied to the firm by the owners?

- A. Total revenue.
 - B. Economic profit.
 - C. Accounting profit.
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Q.1440 In which of the following forms of market structures is it most important for a firm to consider price moves and other firms' strategies?

- A. Oligopoly.
 - B. Monopoly.
 - C. Monopolistic competition.
-

Q.1441 The main differentiating characteristic between perfect competition and monopolistic competition is the:

- A. taxation.
 - B. pricing power.
 - C. number of firms.
-

Q.1444 In which of the following conditions can a firm in a perfectly competitive market maximize its profit?

- A. Demand = Price = Marginal cost.
 - B. Demand = Price > Marginal revenue.
 - C. Demand = Price = Marginal revenue < Marginal cost.
-

Q.1445 Soybeans Corp. operates in a perfectly competitive market. What is the *most likely* impact on the equilibrium price and quantity if the market demand decreases?

- A. The equilibrium price and quantity will decrease.
 - B. The equilibrium price and quantity will increase.
 - C. The equilibrium price will decrease while the equilibrium quantity will increase.
-

Q.1451 Which of the following is *least likely* to be used as a pricing strategy in a monopoly?

- A. Single price strategy.
 - B. Interdependent pricing.
 - C. Discriminating pricing strategy.
-

Q.1455 Earth, Sun, Moon, and Star firms have market shares of 28%, 22%, 15%, and 10% respectively. The 4-firm Herfindahl-Hirschman Index is *closest* to:

- A. 1609.
 - B. 1593.
 - C. 1871.
-

Q.1457 In which of the following forms of market structures does a firm make output and pricing decisions based on the anticipated actions of its competitors?

- A. Oligopoly.
 - B. Monopoly.
 - C. Perfect competition .
-

Q.2466 For a firm operating in a perfectly competitive market, the optimal output quantity will be selected such that:

- A. marginal cost is less than market price.
 - B. marginal cost is less than marginal revenue.
 - C. marginal cost is equal to marginal revenue.
-

Q.2469 In a segment of the software market, the three top firms have 40 percent, 15 percent and 10 percent of the market. The Herfindahl-Hirschmann index for the top three firms is *closest to*:

- A. 0.19.
 - B. 0.63.
 - C. 0.75.
-

Q.3132 You have been provided a firm's cost structure:

Q	TFC	TVC	AFC	AVC	TC	ATC	MC
0	8,500	0	-	-	8,500	-	-
1	8,500	4,000	8,500	4,000	12,500	12,500	4,000
2	8,500	8,800	4,250	4,400	17,300	8,650	4,800
3	8,500	14,520	2,833	4,840	23,020	7,673	5,720
4	8,500	21,296	2,125	5,324	29,796	7,449	6,776
5	8,500	29,282	1,700	5,856	37,782	7,556	7,986
6	8,500	38,652	1,417	6,442	47,152	7,859	9,370

Given the cost structure in the table above, the firm should shut down in the short run if the marginal revenue (market price per unit, for a firm in a perfectly competitive industry) is less than:

- A. 4,000.
 - B. 4,800.
 - C. 7,673.
-

Q.3133 You have been provided a firm's cost structure:

Q	TFC	TVC	AFC	AVC	TC	ATC	MC
0	8,500	0	-	-	8,500	-	-
1	8,500	4,000	8,500	4,000	12,500	12,500	4,000
2	8,500	8,800	4,250	4,400	17,300	8,650	4,800
3	8,500	14,520	2,833	4,400	23,020	7,673	5,720
4	8,500	21,296	2,125	5,324	29,796	7,449	6,776
5	8,500	29,282	1,700	5,856	37,782	7,556	7,986
6	8,500	38,652	1,417	6,442	47,152	7,859	9,370

Given the cost structure in the table above, if the per-unit market price is at 7,400 or less, the firm should *most likely*:

- A. shut down in the long run.
 - B. shut down in the short run.
 - C. operate profitably by producing 4 units.
-

Q.3134 A firm is operating at the breakeven level of output if:

- A. the selling price per unit equals the marginal revenue.
 - B. the selling price equals marginal cost and is above the average total cost.
 - C. the selling price equals the sum of average fixed cost and average variable cost.
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Q.3140 Leonardo's Pizza Palace is the only restaurant in the entertainment district of a large city serving pizza. This restaurant would *most likely* be best described as operating in an industry that is:

- A. monopolistic.
 - B. perfectly competitive.
 - C. perfectly monopolistic.
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Q.3142 The toothpaste manufacturing industry in the U.S., where only a few large manufacturers such as Proctor & Gamble produce somewhat differentiated, but arguably quite similar products, is *best* described as:

- A. oligopoly.
 - B. monopoly.
 - C. perfectly competitive.
-

Q.3143 Within an industry, each firm selects an output level such that marginal revenue equals marginal cost. This decision process is optimal for:

- A. all firms, independent of industry structure.
 - B. all industrial structures except for monopolies.
 - C. all industrial structures except for monopolies and oligopolies.
-

Q.3144 For monopolies:

- A. marginal revenue is equal to the market price, and demand is perfectly elastic.
 - B. marginal revenue is less than the price because the demand curve is downward sloping.
 - C. economic rents may be obtained, but marginal cost is greater than average cost at the profit maximizing quantity.
-

Q.3145 For perfectly competitive firms to remain in the industry:

- A. they must become larger than their competitors.
 - B. they must operate at the minimum average cost point.
 - C. they must operate below the minimum average cost for the industry.
-

Q.3146 For monopolies to maximize the benefit of being able to set the market price, they should:

- A. be in an industry with highly elastic demand.
 - B. be in an industry facing unitary elastic demand.
 - C. be in an industry that has an inelastic demand curve.
-

Q.3147 Oligopolies are *likely* to:

- A. lower prices to steal market share from their competitors.
 - B. engage in non-price competition to avoid mutually destructive price wars.
 - C. set prices such that marginal revenue is slightly below marginal cost but above average total cost.
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Q.3150 A pharmaceutical company has been awarded a patent given it monopoly rights to produce a prescription drug for which there are no competing drugs. During the life of the patent, if the company is trying to maximize profits, it will:

- A. be unlikely to increase prices above marginal cost.
 - B. choose an output level such that price equals marginal cost.
 - C. choose a price corresponding to a demand such that marginal cost equals marginal revenue.
-

Q.3152 A firm operating in a perfectly competitive industry sets output by equating marginal revenue and marginal cost. It will then:

- A. choose a price above the marginal cost to ensure a profit.
 - B. set a price just below the market price to increase market share.
 - C. accept the market price as given and choose output accordingly.
-

Q.3155 In a monopoly market, in the long run:

- A. inefficiencies and high prices can prevail.
 - B. the competition will lead to greater efficiency and lower prices.
 - C. inefficiencies and high prices will be eliminated by the desire to maximize profits.
-

Q.3156 For an oligopoly, in the long run, the pressure of competition on prices:

- A. is of less importance than non-price competition.
 - B. drives the oligopoly to the same equilibrium as perfect competition.
 - C. as with perfectly competitive industries, eliminates monopolistic pricing decisions.
-

Q.3157 The use of concentration ratios to estimate whether a potential merger should be blocked due to the potential of increasing monopolistic behavior may *least likely*:

- A. overstate the risk if there are low barriers to entry.
 - B. overstate the risk if the industry is too broadly defined.
 - C. understate the risk if the products are highly differentiated.
-

Q.3159 The Herfindahl-Hirschman Index is a concentration ratio which:

- A. is often employed by regulators to adjust for the demand elasticity concern of such ratios.
 - B. uses the squares of the market shares of the largest firms but does not consider demand elasticity.
 - C. uses the squares of the market shares of the largest firms and addresses the problem of demand elasticity.
-

Q.3830 An industry has 5 firms, whose market shares are respectively 52%, 15%, 13%, 12% and 8%. Using the Herfindahl-Hirschman Index (HHI), this industry would have an equivalent number of equal-sized firms that *is closest to*:

- A. 2.0111
 - B. 3.0248
 - C. 4.8524
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Q.4060 Which of the following *best* describes a market structure with one seller and many buyers?

- A. Oligopoly.
 - B. Monopoly.
 - C. Monopolistically competitive market.
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