**Part D – Market Structure**

**Q1. What is a difference between a monopoly and a perfectly competitive firm?**

1. A monopoly always has economies of scale and a perfectly competitive firm has diseconomies of scale.
2. A monopoly always operates in the public sector and a perfectly competitive firm always operates in the private sector.
3. A monopoly is a price maker and a perfectly competitive firm is a price taker.
4. A monopoly seeks to maximise profits and a perfectly competitive firm seeks to maximise output.

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**Q2. In a competitive industry, a firm’s aim is to become a monopoly supplier. Which policy is it most likely to use to eliminate competition?**

1. adopt price reductions and advertising
2. avoid diseconomies of scale
3. maximise output and profit
4. reduce financial barriers to entry

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**Q3. Machu Picchu is Peru’s most popular tourist destination. One train company, PeruRail, operates a monopoly service up to the site. Why might competition on the route increase the fares paid by passengers?**

1. Competitive firms have more influence on price than a monopoly.
2. Competitive firms never make a loss.
3. Less advantage may be taken of economics of scale.
4. More profit may be available to spend on new technology to reduce costs of production.

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**Q4. What is unlikely to be a feature of a large firm in a monopoly position in a market?**

1. It achieves economies of scale.
2. It charges high prices.
3. It removes barriers to entry.
4. It will attract government attention.

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**Q5. What is unlikely to be a feature of a large firm in a monopoly position in a market?**

1. It achieves economies of scale.
2. It will attract government attention.
3. It charges high prices.
4. It experiences intense competition in that market.

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**Q6. Why might a government encourage a monopoly?**

1. It can have high average costs.
2. It can compete against foreign firms.
3. It can prevent innovation.
4. It can make excessive profits.

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**Q7. Why might a government discourage monopolies?**

1. They can achieve low average costs.
2. They can compete against foreign firms.
3. They can introduce new technology.
4. They can make large profits.

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**Q8. In a popular tourist city there are three large hotels but many smaller guest houses.**

**The company which owns one of the large hotels decides to add more rooms to its hotel and also purchase one of the other large hotels.**

**What will happen as a result?**

1. The company will be able to control the price of tourist accommodation in the city.
2. The market for hotel accommodation will become less competitive.
3. The smaller guest houses will be forced out of business.
4. There will be a monopoly supply of tourist accommodation in the city.

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