Monopoly - R & U - Reason-Based Questions

Q.1. A monopolist is a price maker.

Ans. True. Because he can fix own price for his product. There is no challenge to his price decisions as there are no competitive firms in the market and there are no close substitutes of his product. Barriers to the entry of new firms further strengthens his position as a price maker.

Q.2. Difference between firm and industry disappears in case of monopoly.

Ans. True. Because monopoly means that there is only one producer of a commodity in the market.

Q.3. A monopolist has full control over price.

Ans. True. This happen because:

(i) monopolist is the only producer of a commodity in the market,

(ii) there are no close substitutes of the monopoly product, and

(iii) there are legal, natural and technical barriers to the entry of new firms in the monopoly market.

Q.4. Abnormal profits are possible in the long run for a monopoly firm.

Ans. True. Abnormal profits are possible in the long run for a monopoly firm because even in the long run monopolist continues to have full control over price of the product, there is no possibility for the new firms to enter the market.

Q.5. Demand curve under monopoly slopes upward from left to right.

Ans. False. Demand curve under monopoly is downward sloping from left to right. Implying that more of the product can be sold only by lowering the price.

Q.6. Total revenue curve in monopoly is inverse U-shaped.

Ans. True. In monopoly, total revenue (TR) curve is inverse U-shaped because initially, it rises at a diminishing rate when MR is diminishing; it reaches its peak (maximum) when MR = 0, and finally, starts sloping downward when MR is negative.