NAME: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ PERIOD: \_\_\_\_\_ DATE: \_\_\_\_\_\_\_\_

**DIRECTIONS***: Enter the appropriate word(s) to complete the statement.*

# Review Questions

**Directions:** Read each main idea and complete the statements below. Refer to your textbook as you write the answers.

## Pure Competition LESSON 1

**Main Idea:** Pure competition is a theoretical construct based on factors—such as very large numbers, identical products, and freedom of entry and exist. Perfect competition, too, exists in theory only, as it posits that all aspects of the market are “perfect” in all things such as knowledge and resource mobility—a state of affairs that does not occur.

1. Pure competition demands that there be a very number of buyers and

sellers, and that all products be .

1. Perfect competition stipulates that all buyers and sellers have perfect of

all the in the market, and that resources are perfectly .

1. In pure competition, supply and demand set the

price of a product.

1. In pure competition, how a business produces is determined when the marginal

of production equals to marginal from sales.

## Monopolistic Competition

**Main Idea:** In monopolistic competition, products are very similar and sellers emphasize some uniqueness in their product to convince consumers to buy them. Most brand name products fit into this category.

1. In monopolistic competition, businesses emphasize the of their product

in order to get the price for it.

## 6. Businesses often use competition, such as promotions and

aggressively the product on TV or online, to lure consumers into buying it.

## Oligopoly

**Main Idea:** In an oligopolistic market structure, a few giant businesses dominate the market. In this form of imperfect competition, these large firms have a huge influence on the price of goods.

1. Oligopolies often each other’s actions, such as revising

to match that of other giant firms producing the same products.

1. Oligopolists by using non-price measures, such as changing the

of a model of an automobile.

1. Sometimes oligopolists engage in \_\_\_with others in the same business, and this often leads

to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ which is illegal.

1. Non-price is expensive, so products are often more expensive than monopolistic products.

## Monopoly

**Main Idea:** A monopoly is a market structure in which a product is made and sold by only one producer. Types of monopolies are natural, geographic, technological, and government.

1. Electric utilities are an example of monopolies because production

costs of electricity are when it is produced and distributed by single company.

1. A \_\_\_\_\_\_\_\_\_monopoly is based on the absence of other \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_in a certain geographic area.
2. A technological monopoly may arise when one company has a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_on a

particular production technique or a on written material that it has an exclusive right to market.

1. A monopoly involves products or services, such as water provision

and treatment, that the sector cannot adequately supply.

1. No matter what the structure, businesses strive to achieve maximum

by adjusting production to price.

**Lesson 7-2**

**A. Types of Market Failure**

**Main Idea:**  Several factors contribute to market failure, including lack of competition, lack of information or knowledge, lack of public goods, static resources, and negative externalities and spillovers.

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| **1.**Lack of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ lowers a business’s incentives to use \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ more efficiently. |

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| **2.**All participants in the economy must have adequate \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in order for the market to  function \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. |

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| **3.**Resource \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a situation in which necessary factors of production do not move  to market where they would earn \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ returns. |

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| **4.**Government must produce sufficient and viable \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ goods because private  business cannot \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ by providing them. |

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| **5.**When markets do not compensate for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ effects, the costs and benefits of a new  activity are not accurately reflected in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. |

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| **6.**The increased noise from an expanding airport one type of negative \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that  harms an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ third party, or those who do not use the airport. |

**B. Dealing with Spillovers**

**Main Idea:**  There are ways that government, in particular, can help ease the effects of negative spillovers and externalities. These may involve tax policy and subsidies.

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| **7.**In a free market economy, if the government \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ firms with negative spillovers,  such as pollution, the added cost will make a firm less \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. |

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| **8.**Free primary education is a form of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ spillover, which is why it gets  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ support. |

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| **9.**Both governments and businesses use \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ analysis to compare and  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ projects that have positive spillovers. |

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| **10.**Most spillovers and externalities can be dealt with via \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ action, such as taxes,  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ , and subsidies. |

**Lesson 3**

**Main Idea:** The government has some important actions it can take to guarantee competition in the economy. Among these are preventing monopolies from forming and eliminating or restricting existing monopolies. Certain regulations on business are also intended to enhance competition among businesses.

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| **1.**In the late 1800s, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ was threatened by the growing use of monopolies and  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Act was the first significant law against monopolies. |

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| **2.**Price \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ involves selling the same product to different \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ at  different prices. |

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| **3.**Government agencies can stop practices that reduce \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ by issuing  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ orders against offending companies. |

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| **4.**A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ monopoly may be allowed to function because its economies of  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ enable it to provide necessary services or products at a low cost to many consumers. |
| ​  **B. Competition, Consumer Protection, and Regulation**  **Main Idea:**  The government has indirect ways of enhancing competition. These include promoting greater business transparency, ensuring the safety of consumer products, and regulating business behavior that limits competition or endangers the public. |

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| **5.**In order to ensure \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ , the government may require businesses to  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ information about its product of its operations to the public. |

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| **6.**In the hopes of preventing another recession like the Great Recession of 2008-2009, Congress  established the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  in 2011 to provide \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and guidance in the financial lending industry. |

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| **7.**There are numerous federal \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that are responsible for ensuring public  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. |

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| **8.**The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Administration makes sure the food we eat  will not make us sick, and the National \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Safety Administration oversees automobile recalls. |

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| **9.**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a way for governments to control land use. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ laws are usually designed to stabilize and maintain the characteristics of neighborhoods. |

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| ​  ​  ​  ​  **C. Modified Free Enterprise**  **Main Idea:**  Modified free enterprise is an economic system in which the free market is to some extent regulated by the government. |

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| **10.**Among the first laws passed to regulate business were intended to break up “evil” \_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and to protect the rights of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. |

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| **11.**More recently, concern has shifted to the economic goal of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and the role of the government in promoting it. In addition to keeping the markets reasonably competitive, the  government can make the economy more efficient by supplying public \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and  promoting \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. |

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| **12.**Over the years, the government’s role in the economy has evolved from \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  protection to the promotion of economic \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. |

**Answer Key**

**Lesson 1**

1. large; identical
2. knowledge; conditions; mobile
3. market; equilibrium
4. cost; revenue
5. uniqueness; highest

## 6. nonprice; advertising

1. copy/mirror; prices
2. compete; appearance
3. collusion; price-fixing
4. competition; oligopolist
5. natural; lower
6. geographic; sellers
7. patent; copyright
8. government; private
9. market; profit

**Lesson 2**

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| **1.**competition; resources |
| **2.**information; efficiently |

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| **3.**immobility; higher |

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| **4.**public; profit |

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| **5.**spillover; price |

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| **6.**externality/spillover effect; uninvolved |

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| **7.**taxes; profitable/competitive |

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| **8.**positive; government |

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| **9.**cost-benefit; evaluate |

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| **10.**government; laws  **Lesson 3**  1. competition; trusts; Sherman  2. discrimination; consumers  3. competition; cease; desist  4. natural; scale  5. transparency; revel/disclose  6. Consumer Financial Protection Bureau; oversight  7. agencies; safety  8. Food; Drug; Highway Traffic  9. Zoning; residential zoning  10. monopolies; worker  11. efficiency; goods; transparency  12. consumer; competition; efficiency |