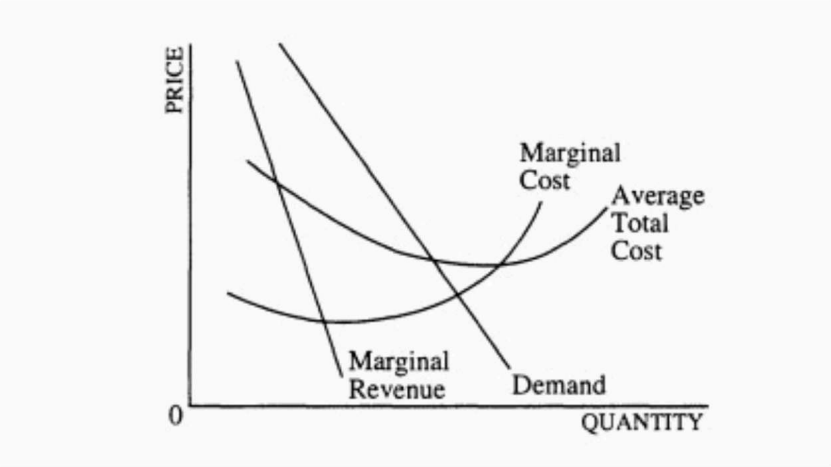
Unit 6.4 The Effects of Government Intervention in Different Market Structures

AP Microeconomics — 50 Questions (40 QB + 7 MCQ + 3 FRQ)

Question Bank

1.



The graph above shows the cost and revenue curves for a natural monopoly. Consider the following two policies for regulating this natural monopoly.
Policy I: Require the monopoly to set quantity and price where demand equals marginal cost.
Policy II: Require the monopoly to set quantity and price where demand equals average total cost.
Which of the following is true of these policies?

(A) Both would result in the same level of output and price.

(B) Both would result in an inefficient allocation of resources relative to the unregulated result.

(C) Policy I would result in a lower level of output than would Policy II.

(D) Policy I would result in a higher price than would Policy II.

(E) Policy I might require the payment of a subsidy to the firm.

Source: externality MCQ.pdf, Q3

2.

The primary purpose of antitrust laws is to

(A) protect consumers from fraudulent business practices

(B) protect small businesses from unfair foreign competition

(C) prevent firms from monopolizing trade and to promote competition

(D) reduce lawsuits and limit the liabilities of businesses

(E) grant the government the right to take over private property

Source: externality MCQ.pdf, Q4

3.

Antitrust laws are designed to maintain a competitive market environment by

(A) eliminating monopolies wherever they exist

(B) preventing monopolies from generating negative externalities

(C) limiting practices that increase a firm's market power

(D) imposing price ceilings on products produced by monopolies

(E) making charging a price above marginal cost illegal

Source: externality MCQ.pdf, Q5

4.

Antitrust policies are put in place to limit which of the following?

(A) Income inequality

(B) Monopoly power

(C) Double taxation of corporations

(D) Price ceilings

(E) The provision of public goods

Source: externality MCQ.pdf, Q6

5.

Antitrust legislation is designed to make it illegal for a firm to monopolize an industry. Which of the following best states the economic rationale for this legislation?

(A) A monopolist produces too little of the good, producing an output that minimizes the average cost of production.

(B) A monopolist produces too little of the good, charging consumers a price that exceeds the marginal cost of production.

(C) A monopolist is more likely to pollute the environment than are firms in a competitive industry.

(D) A monopolist engages in price discrimination, charging low-income people with elastic demand curves a higher price than that charged to high-income people with inelastic demand curves.

(E) A monopolist produces too much of a good, attracting scarce factors of production that might be better utilized in other industries.

Source: externality MCQ.pdf, Q7

6.

Antitrust policy is designed to

(A) encourage businesses to produce public goods

(B) establish trust between the government and the business community

(C) prevent businesses from earning profits

(D) maintain a competitive business environment

(E) ensure that businesses earn only zero economic profits in the long run

Source: externality MCQ.pdf, Q8

7.

Antitrust policy seeks to prevent or eliminate which of the following practices?

(A) Firing of workers

(B) Collusion and price fixing

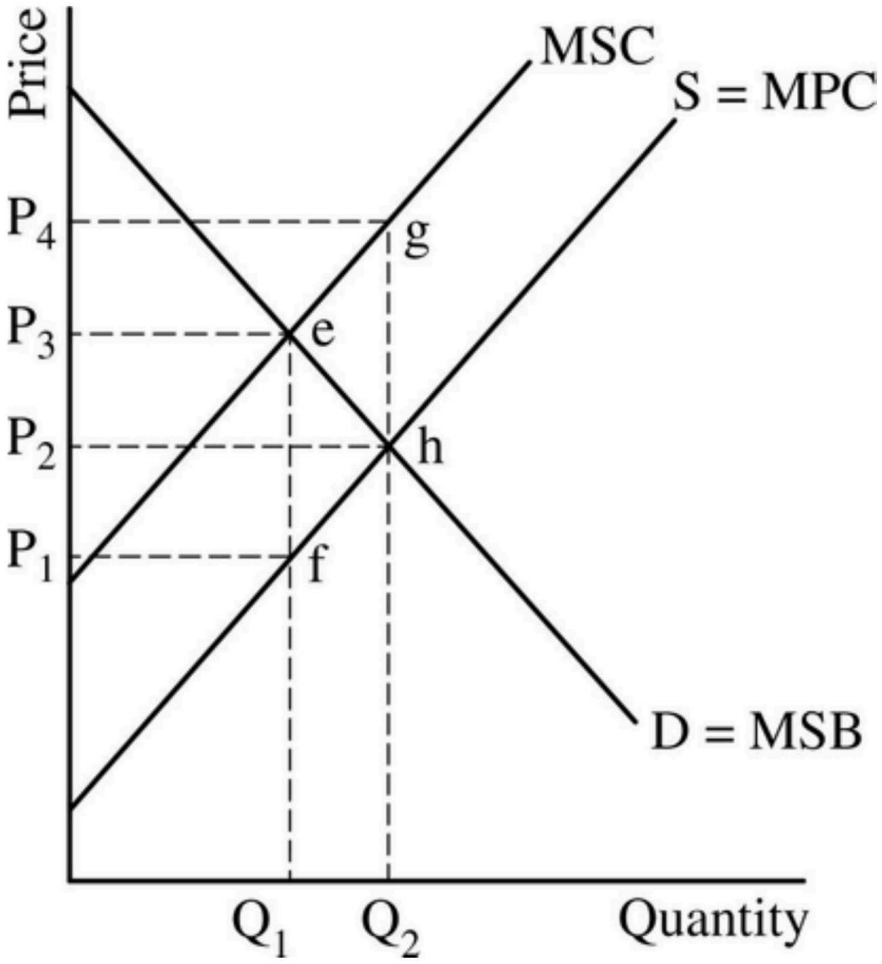
(C) Pollution of rivers

(D) Monopolistic competition

(E) Discrimination in the labor market

Source: externality MCQ.pdf, Q9

8.



The government can attempt to correct the externality by setting a

(A) per-unit tax equal to ($P_4 - P_1$)

(B) per-unit tax equal to ($P_4 - P_2$)

(C) per-unit subsidy equal to ($P_4 - P_2$)

(D) per-unit subsidy equal to ($P_3 - P_2$)

(E) price ceiling at P_2

Source: externality MCQ.pdf, Q15

9.

To correct for positive externalities, the government should

(A) do nothing, since no harm is done by positive externalities

(B) levy a tax on the output of the good or service

(C) pay a subsidy equal to the marginal external benefit

(D) impose a price ceiling on the good to discourage its production

(E) impose a price floor on the good at which the marginal private benefit equals the marginal social cost

Source: externality MCQ.pdf, Q16

10.

If the goal of government regulators of a natural monopoly is to reduce deadweight loss without subsidizing the monopolist, government regulators would set a price equal to

(A) average variable cost

(B) average total cost

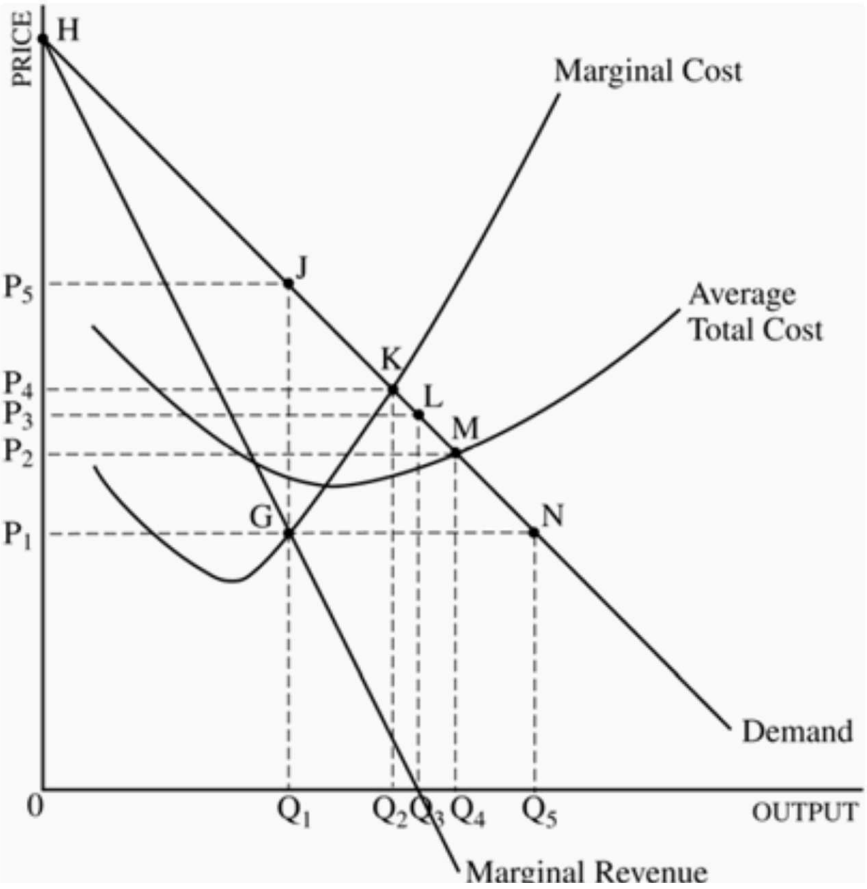
(C) average fixed cost

(D) short-run marginal cost

(E) long-run marginal cost

Source: externality MCQ.pdf, Q21

11.



If the monopolist produces the allocatively efficient level of output rather than the profit-maximizing level of output, consumer surplus will

(A) decrease by the area P_5JKP_4

(B) decrease by the area P_5JMP_2

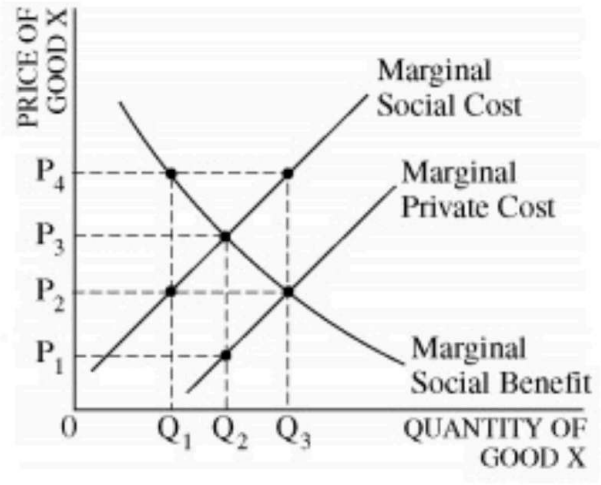
(C) increase by the area P_5JGP_1

(D) increase by the area P_5JKP_4

(E) increase by the area P_5JMP_2

Source: externality MCQ.pdf, Q26

12.



The socially optimal quantity and the per-unit tax that will achieve the socially optimal quantity are which of the following?

	Socially Optimal Quantity	**Per-Unit Tax**
(A)	Q_1	$P_4 - P_2$
(B)	Q_2	$P_3 - P_2$
(C)	Q_3	$P_4 - P_2$
(D)	Q_2	$P_3 - P_1$
(E)	Q_3	$P_3 - P_2$

Source: externality MCQ.pdf, Q28

13.

If government regulators set price such that a natural monopolist earns only normal profits, price will be set equal to

(A) marginal revenue

(B) marginal cost

(C) average total cost

(D) average revenue

(E) average variable cost

Source: externality MCQ.pdf, Q30

14.

The market inefficiency of a negative production externality will be eliminated if a policy is put in place that results in which of the following outcomes?

(A) the level of output produced is maximized

(B) the marginal benefit of production is maximized

(C) the marginal cost of production is minimized

(D) the marginal social benefit of production exceeds the marginal social cost

(E) the marginal social benefit of production is equal to the marginal social cost

Source: externality MCQ.pdf, Q31

15.

If firms in a perfectly competitive industry have been dumping toxic waste free of charge into a river, government action to ensure a more efficient use of resources would have which of the following effects on the industry's output and product price?

	Output	**Price**
(A)	Decrease	Decrease
(B)	Decrease	Increase
(C)	Increase	Decrease
(D)	Increase	Increase
(E)	Increase	No change

Source: externality MCQ.pdf, Q36

16.

Which of the following is NOT an effective way to manage the inefficiency resulting from a negative externality?

(A) Government intervention in the form of obligatory controls

(B) Per-unit taxes

(C) Assignment of property rights

(D) Lump-sum taxes

(E) Private negotiations among affected parties

Source: externality MCQ.pdf, Q49

17.

Pollution abatement policies will improve efficiency if the

(A) marginal benefit of abatement is less than the marginal cost of abatement

(B) marginal cost of abatement is less than the marginal benefit of abatement

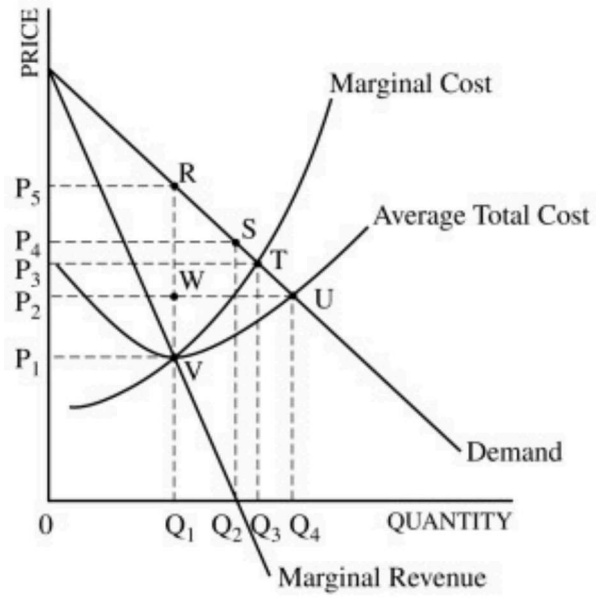
(C) marginal cost of abatement is positive

(D) marginal benefit of abatement is positive

(E) marginal cost of abatement is zero

Source: externality MCQ.pdf, Q50

18.



If the government regulates the monopolist to set price equal to average total cost, it will establish the price at

(A) P_5

(B) P_4

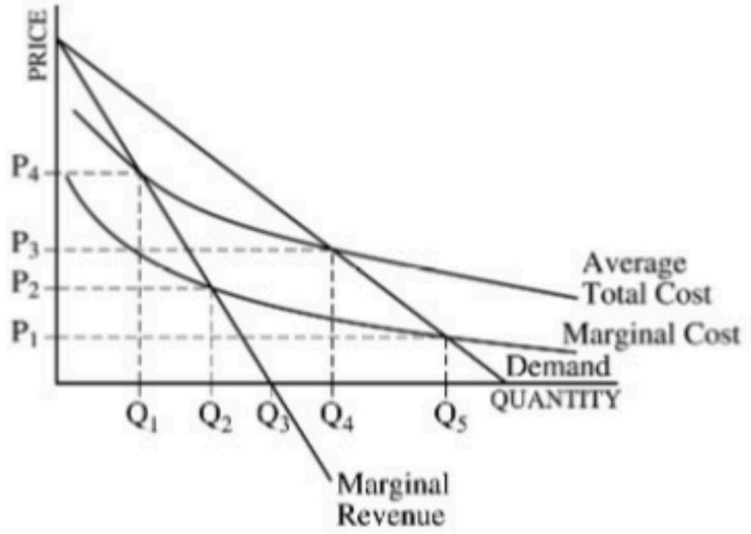
(C) P_3

(D) P_2

(E) P_1

Source: externality MCQ.pdf, Q54

19.



If government regulated the natural monopoly to produce the output resulting in zero economic profit, then the output would be

(A) Q_1

(B) Q_2

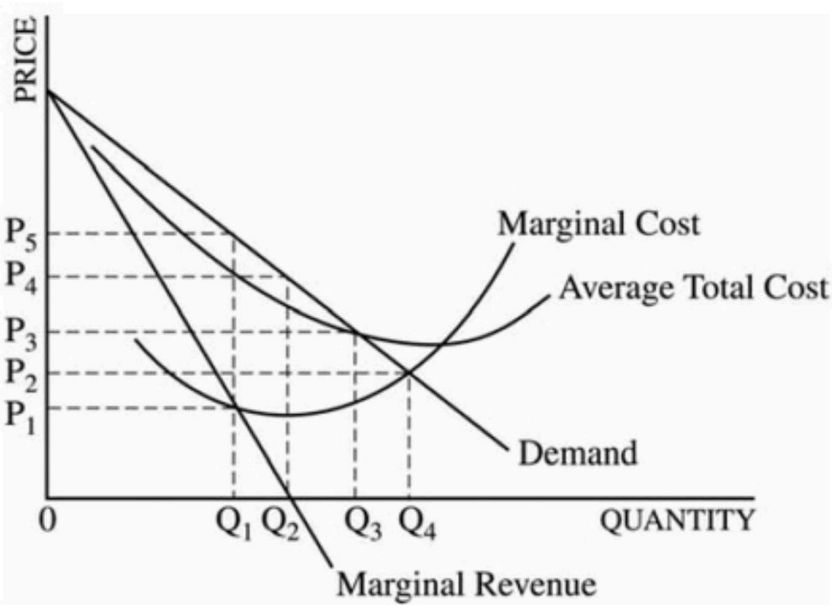
(C) Q_3

(D) Q_4

(E) Q_5

Source: externality MCQ.pdf, Q60

20.



If the government wants to regulate this monopoly to produce the socially optimum level of output, it should set a price equal to

(A) P_1

(B) P_2

(C) P_3

(D) P_4

(E) P_5

Source: externality MCQ.pdf, Q63

21.

Assume that the marginal social benefit of the last unit of vaccination provided is greater than the marginal social cost. Which of the following can be used to achieve efficiency in the market for vaccination?

(A) A per-unit subsidy for vaccinations

(B) A lump-sum tax for vaccinations

(C) A limit on the quantity of vaccinations

(D) A price floor for vaccinations

(E) A price ceiling for vaccinations

Source: externality MCQ.pdf, Q79

22.

Under an efficient policy to address the problem of pollution created from manufacturing good X, which of the following is true?

(A) Pollution is completely eliminated.

(B) The marginal private cost of producing good X exceeds the marginal revenue from its sale.

(C) The marginal private cost of producing good X equals the marginal revenue from its sale.

(D) The marginal social benefit of pollution reduction exceeds the marginal social cost of pollution reduction.

(E) The marginal social benefit of pollution reduction equals the marginal social cost of pollution reduction.

Source: externality MCQ.pdf, Q85

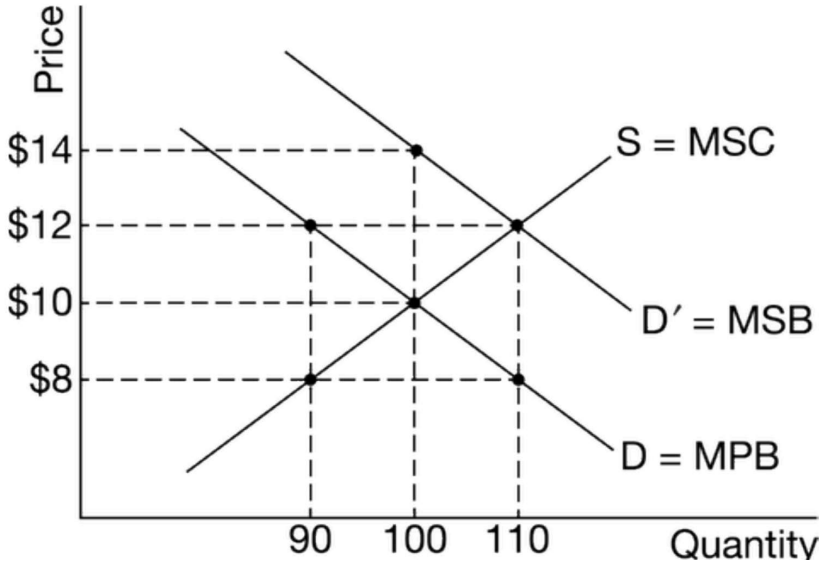
23.

A per-unit tax on pollution produced by a firm will affect the firm's output and pollution levels in which of the following ways?

	Output	**Pollution**
(A)	Increase	Increase
(B)	Increase	Decrease
(C)	Decrease	Increase
(D)	Decrease	Decrease
(E)	No change	No change

Source: externality MCQ.pdf, Q87

24.



The graph above depicts the marginal private benefit, the marginal social benefit, and the marginal social cost of producing a good. Which of the following correctly identifies both the problem illustrated in the graph and the remedy to the problem?

(A) Negative externality; a corrective per-unit tax equal to the external cost of $2 will lead to the socially optimal output.

(B) Negative externality; a corrective per-unit tax equal to the external cost of $4 will lead to the socially optimal output.

(C) Positive externality; a corrective per-unit subsidy equal to the external benefit of $2 will lead to the socially optimal output.

(D) Positive externality; a corrective per-unit subsidy equal to the external benefit of $4 will lead to the socially optimal output.

(E) Positive externality; a corrective per-unit tax equal to the external benefit of $6 will lead to the socially optimal output.

Source: externality MCQ.pdf, Q90

25.

As an unregulated monopolist, City Cable is earning positive economic profits. If the government regulated the firm by requiring it to produce the level of output that allowed the firm to earn zero economic profit, City Cable would set a price that is equal to its

(A) marginal cost

(B) marginal revenue

(C) average total cost

(D) average variable cost

(E) total cost

Source: externality MCQ.pdf, Q94

26.

A chemical plant pollutes a river that serves as the water supply for a nearby town. From an economist's point of view, pollution from the plant should be reduced until the

(A) marginal benefit from the cleaner water is equal to the marginal cost of making the water cleaner

(B) marginal benefit from cleaner water is maximized

(C) total benefit from cleaner water is zero

(D) total benefit from cleaner water is equal to the total cost of making the water cleaner

(E) total benefit from cleaner water is maximized

Source: externality MCQ.pdf, Q105

27.

If the government regulates a natural monopolist to produce the allocatively efficient level of output, it will require the monopolist to set a price that is

(A) equal to its marginal cost and grant a subsidy to cover the loss

(B) equal to its average total cost and levy a tax on the excess profit

(C) greater than its marginal cost and levy a tax on the excess profit

(D) greater than its marginal cost but that minimizes the deadweight loss

(E) greater than its average total cost but that minimizes the deadweight loss

Source: externality MCQ.pdf, Q110

28.

If the production of a good generates a positive externality, the government can increase allocative efficiency by

(A) taxing the producer of the good

(B) subsidizing the producer of the good

(C) prosecuting firms that produce the good without proper permits

(D) setting a price ceiling to encourage production of the good

(E) setting a price floor to discourage production of the good

Source: externality MCQ.pdf, Q111

29.

If positive externalities exist in the market for flu shots, which of the following is true?

(A) Taxing flu shots will lead to the socially efficient level of output.

(B) Subsidizing flu shots will lead to the socially efficient level of output.

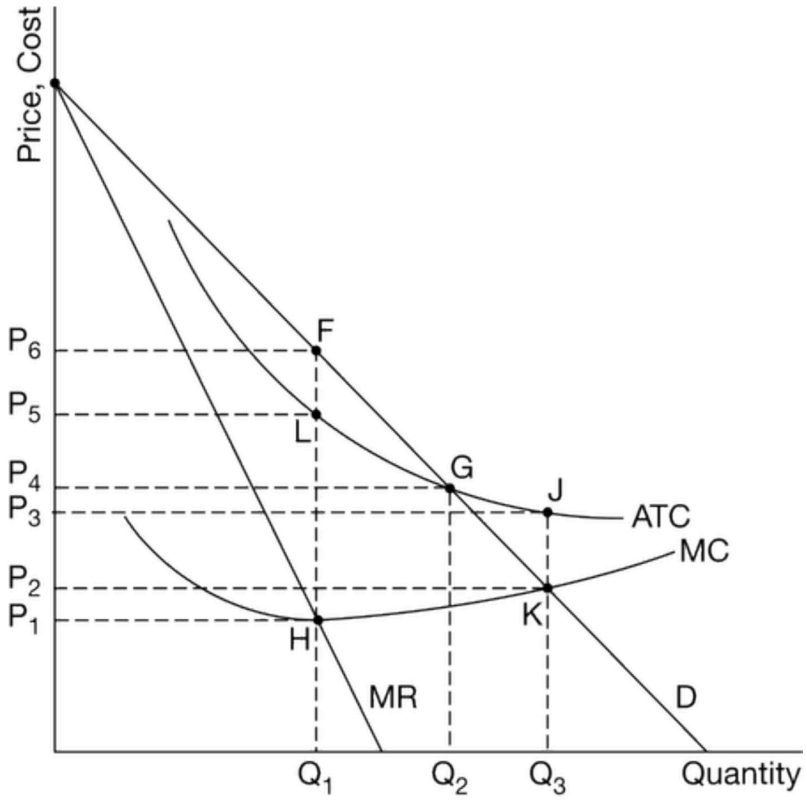
(C) The firm making the flu shots is charging too low a price to reach the socially efficient level of output.

(D) The firm making the flu shots is producing where marginal social cost equals marginal social benefit.

(E) The firm making the flu shots is producing the socially efficient quantity if the market for flu shots is perfectly competitive.

Source: externality MCQ.pdf, Q112

30.



The graph above shows the price and cost condition for a natural monopoly. The amount of lump-sum subsidy required to regulate the monopoly to produce the allocatively efficient quantity is given by the area

(A) P_3P_6FL

(B) P_1P_5LH

(C) P_1P_6FH

(D) P_2P_4JK

(E) GQ_2Q_3J

Source: externality MCQ.pdf, Q113

31.

Which of the following government actions can correct the inefficiency caused by the existence of a monopoly?

(A) Granting a per-unit subsidy on the monopolist's output

(B) Granting an annual lump-sum subsidy to the monopolist

(C) Imposing a per-unit tax on the monopolist's output

(D) Imposing a price floor on the monopolist

(E) Limiting the monopolist's production through regulation

Source: externality MCQ.pdf, Q114

32.

If the production of a good results in a positive externality, the government might be able to improve economic efficiency in this market by

(A) eliminating private production of the good

(B) imposing a tax on private producers

(C) promoting the export of the surplus output

(D) initiating antitrust action

(E) granting a subsidy to private producers

Source: externality MCQ.pdf, Q115

33.

Which of the following will cause an unregulated monopolist to produce a more allocatively efficient level of output?

(A) A tax based on the amount of profits

(B) A tax that does not change as output increases

(C) A tax that increases as output increases

(D) A subsidy that increases as output increases

(E) A subsidy that does not change as output increases

Source: externality MCQ.pdf, Q116

34.

In a perfectly competitive market for a good with a downward-sloping demand curve and an upward-sloping supply curve, the marginal social benefit is greater than the marginal social cost at the market equilibrium quantity. The government imposition of a new per-unit tax on the production of the good would

(A) have no effect on the price of the good

(B) increase consumer surplus

(C) increase the deadweight loss

(D) increase producer surplus

(E) increase the quantity sold of the good

Source: externality MCQ.pdf, Q117

35.

Assume that under new environmental regulations, tire companies have to pay taxes based on how much pollution is created when producing each tire. The price paid by consumers and the quantity of tires sold will most likely change in which of the following ways?

	Price	**Quantity**
(A)	Increase	Decrease
(B)	Increase	Increase
(C)	Decrease	Increase
(D)	Decrease	Decrease
(E)	No change	No change

Source: externality MCQ.pdf, Q118

36.

Which of the following is a government policy that is intended to address a market failure?

(A) Taxing the use of toxic pesticides by farmers

(B) Fining firms that outsource jobs to lower labor costs

(C) Subsidizing corn farmers who face increasing production costs

(D) Taxing short-run profits in competitive markets

(E) Subsidizing entry of firms into a market with an existing natural monopoly

Source: externality MCQ.pdf, Q119

37.

Suppose that at the current output level the marginal social cost of producing a good is greater than its marginal private cost, and that the marginal social benefit associated with production of the good is equal to its marginal private benefit. Which of the following government actions would most likely increase efficiency?

(A) Taxing the production of the good

(B) Taxing the production of substitute goods

(C) Giving tax rebates to people who purchase the good

(D) Subsidizing production of complementary goods

(E) Subsidizing consumption of the good

Source: externality MCQ.pdf, Q120

38.

Imposing taxes that increase as a firm's pollution increases is often recommended by economists as a means to reduce pollution. The reason for this recommendation is that such taxes would likely

(A) eliminate pollution completely

(B) encourage firms to use the most efficient method to reduce pollution

(C) increase the government's revenues

(D) encourage firms to increase production

(E) be paid out of firm's profits and not paid for by higher consumer prices

Source: externality MCQ.pdf, Q121

39.

In which of the following cases is the government's action appropriate for reducing inefficiency?

(A) Taxation of the output of a chocolate factory that emits an aroma that residents of the city enjoy

(B) Regulation that reduces the output of a monopoly

(C) A lump-sum tax on a monopolist

(D) A subsidy for the consumption of a good produced by a plant that emits a pollutant as a by-product

(E) A toll on a congested bridge

Source: externality MCQ.pdf, Q122

40.

One justification for government regulation of a monopoly is that the unregulated monopoly

(A) earns a normal profit

(B) pays its workers a lower wage than if the market were competitive

(C) has a very elastic demand curve

(D) charges a price higher than a competitive market price

(E) sells too much of the product

Source: externality MCQ.pdf, Q128

MCQ — Past Exam Questions

41. 2021 AP Micro Q27

Which of the following is NOT an effective way to manage the inefficiency resulting from a negative externality?

(A) Government intervention in the form of obligatory controls

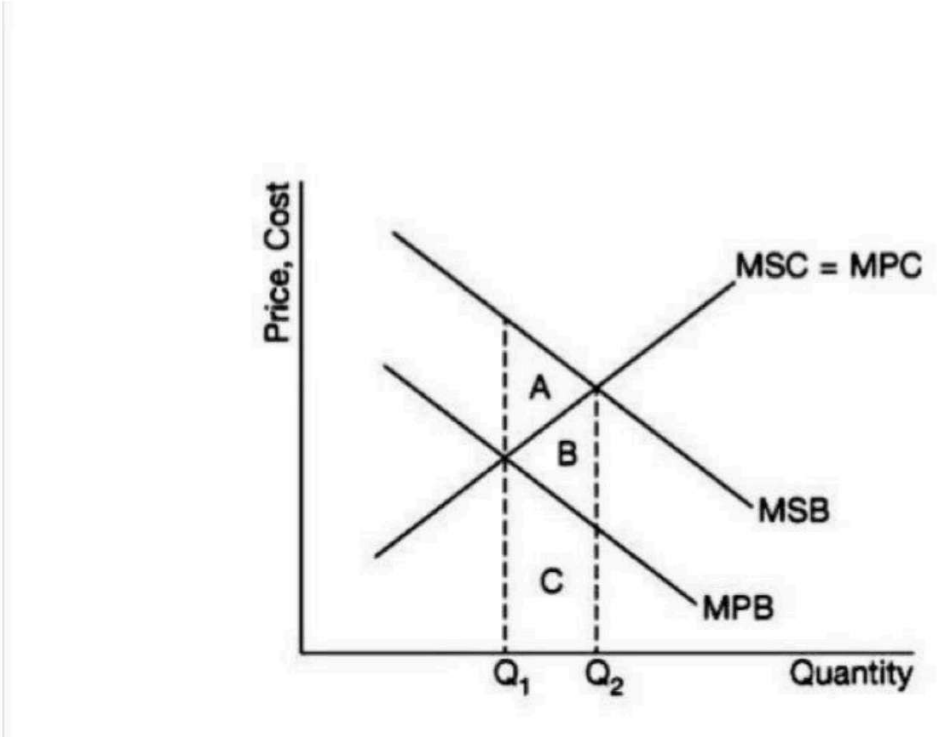
(B) Per-unit taxes

(C) Assignment of property rights

(D) Lump-sum taxes

(E) Private negotiations among affected parties

42. 2021 AP Micro Q30



The graph provided shows the marginal social cost (MSC = MPC), marginal social benefit (MSB), and marginal private benefit (MPB) curves for a good. The market is currently producing at Q_1. A government program that costs $1.2 million will increase output to Q_2. Which of the following is true about the government intervention?

(A) The program is efficient because the total social benefit of increasing output from Q_1 to Q_2 exceeds $1.2 million.

(B) The program is efficient because the total social benefit of increasing output from Q_1 to Q_2 is less than $1.2 million.

(C) The program is efficient because the total social benefit of increasing output from Q_1 to Q_2 equals $1.2 million.

(D) The program is inefficient because the total social benefit of increasing output from Q_1 to Q_2 exceeds $1.2 million.

(E) The program is inefficient because the total social benefit of increasing output from Q_1 to Q_2 is less than $1.2 million.

43. 2022 AP Micro Q38

If the government regulates a natural monopoly to produce the socially optimal quantity of output (where P = MC), which of the following is true?

(A) The firm will earn positive economic profit.

(B) The firm will earn zero economic profit.

(C) The firm will earn negative economic profit because price is below average total cost.

(D) The firm's deadweight loss will increase.

(E) Consumer surplus will decrease.

44. 2023 AP Micro Q3

The government of Annapolita has determined that the country's power company, an unregulated natural monopolist, should be required to produce the allocatively efficient quantity of electricity. Which of the following actions will achieve the government's goal?

(A) The government imposes a per-unit tax on each unit of output the monopoly produces and imposes a lump-sum tax on the monopolist to eliminate any remaining profit.

(B) The government sets the price at the point where demand and average total cost curves intersect and provides a lump-sum subsidy to the monopolist equal to the monopolist's normal profit.

(C) The government sets the price at the point where demand and average total cost curves intersect and imposes a lump-sum tax on the monopolist to eliminate the monopolist's normal profit.

(D) The government sets the price at the point where demand and marginal cost curves intersect and imposes a lump-sum tax on the monopolist to eliminate the monopolist's normal profit.

(E) The government sets the price at the point where demand and marginal cost curves intersect and provides a lump-sum subsidy to the monopolist to earn normal profit.

45. 2024 AP Micro Q36

Which of the following describes the purpose of government antitrust legislation?

(A) To increase positive externalities in consumption in order to increase consumers' standard of living

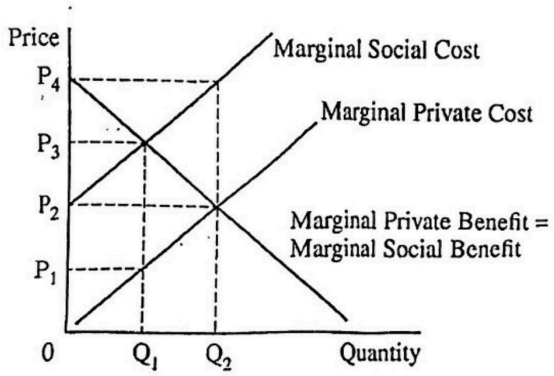
(B) To decrease negative externalities in production in order to achieve a socially optimal quantity of output

(C) To increase competition in markets in order to reduce inefficiencies caused by monopoly power

(D) To encourage firms to pay their workers a wage equal to their marginal revenue product in order to decrease income inequality

(E) To limit imports in order to protect domestic producers

46. 2024 AP Micro Q60



Which of the following policies would address the externality problem in the market depicted in the graph provided?

(A) Granting a per-unit subsidy of $P_4 - P_2$ to consumers

(B) Imposing a per-unit tax of $P_3 - P_1$ on producers

(C) Setting a price floor at P_2

(D) Setting a price ceiling at P_3

(E) Limiting production to Q_2

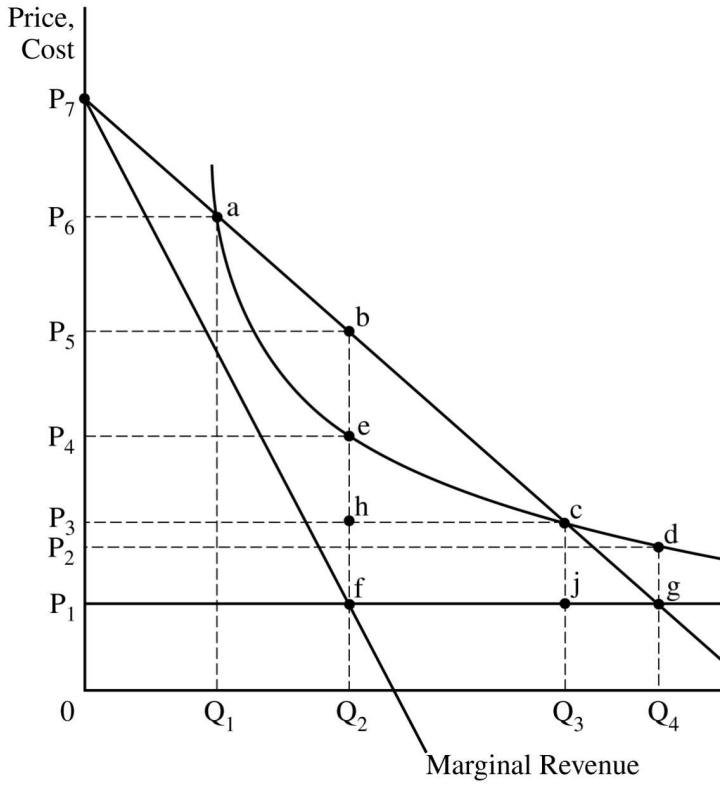
47. 2025 AP Micro Q50

Two monopolies with identical cost structures are compared. One is an unregulated profit-maximizing monopoly, and the other is regulated to produce the quantity at which it breaks even (earns zero economic profit). Which of the following accurately describes the difference between the two monopolies?

	The Unregulated Monopoly	**The Regulated Monopoly**
(A)	Charges a price equal to average total cost	Charges a price equal to marginal cost
(B)	Creates deadweight loss in the market	Eliminates deadweight loss from the market
(C)	Experiences economies of scale	Experiences diseconomies of scale
(D)	Collects all consumer surplus from the consumers	Transfers all consumer surplus to the government
(E)	Produces where marginal revenue equals marginal cost	Produces where price equals average total cost

FRQ — Past Exam Questions

48. 2023 AP Micro FRQ, Set 2, Question 3



The graph shows the cost and revenue curves for an unregulated, profit-maximizing monopoly.

(a) Is the firm shown in this graph a natural monopoly? Explain.

(b) Using the labeling from the graph, identify the area representing the deadweight loss for this profit-maximizing monopoly.

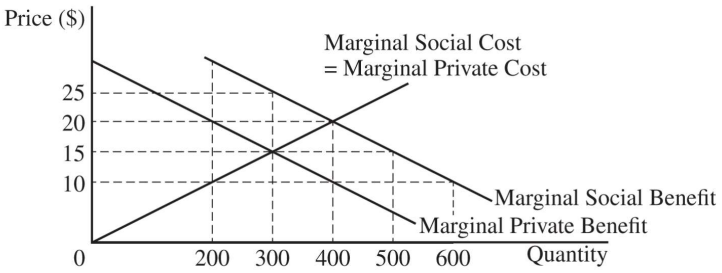
(c) In order to improve resource allocation, the government sets a price that results in the firm earning zero economic profit.

(i) Using the labeling from the graph, identify the price and resulting quantity the firm would produce.

(ii) Will this government policy eliminate the deadweight loss? Explain using labeling from the graph.

(d) Instead, the government decides to set a price that results in the socially optimal quantity of output. Will the firm earn positive, negative, or zero economic profit? Explain using labeling from the graph.

49. 2024 AP Micro FRQ, Set 1, Question 2



Good X is produced and sold in a perfectly competitive market. The provided graph shows the market for Good X.

(a) Identify the market equilibrium price and quantity.

(b) Calculate the deadweight loss at the market equilibrium. Show your work.

(c) Suppose the government wants to eliminate the deadweight loss in the market for Good X.

(i) Which of the following will achieve the government's objective: a per-unit tax on consumers or a per-unit subsidy to consumers? Explain.

(ii) What is the dollar value of the per-unit tax or per-unit subsidy identified in part (c)(i)?

(d) Suppose instead the government imposes a price ceiling of $10. Will the price ceiling achieve the socially optimal quantity of Good X? Explain.

50. 2025 AP Micro FRQ, Set 1, Question 1

Voda Reservoir is a profit-maximizing firm and the only producer of bottled water in a country. Currently, Voda Reservoir is earning negative economic profit.

(A) Draw a correctly labeled graph for Voda Reservoir and show each of the following.

(i) The profit-maximizing quantity, labeled Q_M

(ii) The profit-maximizing price, labeled P_M

(iii) The average total cost curve consistent with Voda Reservoir earning negative economic profit, labeled ATC

(iv) The area of deadweight loss, shaded completely

(B) Suppose the government requires Voda Reservoir to produce the socially optimal quantity of bottled water. On your graph in part A, show the socially optimal quantity of bottled water, labeled Q_S.

(C) Suppose instead the government grants a per-unit subsidy to Voda Reservoir. What will happen to Voda Reservoir's profit-maximizing quantity of bottled water? Explain.

(D) Suppose new producers have entered the bottled-water market and Voda Reservoir continues to operate in the bottled-water market. Will the demand for Voda Reservoir's bottled water become more elastic, become less elastic, or stay the same as new producers enter the market?

(E) Voda Reservoir hires workers in a perfectly competitive labor market.

(i) If the demand for bottled water increases, what will happen to Voda Reservoir's demand for labor? Explain.

(ii) The government implements a new regulation that increases the minimum age required for a worker to be employed in a bottled-water factory. What will happen to the market wage in the short run? Explain.