Question 3 (Answer: **C**)

- Total revenue rises whenever marginal revenue is positive.
- Total profit rises only while marginal revenue exceeds marginal cost.
- So read both MR and MC over the range: if MC is above MR, extra output *reduces* profit even as revenue grows.

Question 5 (Answer: **D**)

- A Pareto improvement makes at least one person better off without making anyone worse off.
- So look for a reallocation that removes a genuine inefficiency.
- Anything that gains for one group at another's expense is a redistribution, not a Pareto improvement.

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Question 4 (Answer: **C**)

- Very high fixed costs with low marginal costs mean average cost keeps falling as output rises.
- One firm can therefore supply the whole market more cheaply than several could.
- That is a natural monopoly, which is why such industries are regulated rather than broken up.

Question 7 (Answer: **D**)

- Profit maximisation is where MC = MR; revenue maximisation is where MR = 0.
- Sales maximisation is the largest output at which the firm still covers its costs.
- So it is where AR = AC – normal profit only, and the highest output of the three.

Question 8 (Answer: **B**)

- Allocative efficiency requires price to equal marginal cost.
- A subsidy can lower the price towards marginal social cost where there is a positive externality.
- Supernormal profit and product differentiation both indicate price *above* marginal cost.

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Question 2 (Answer: **A**)

- Limit pricing means setting a price low enough to deter entry, but still profitable.
- It works as a barrier to entry without breaking competition law outright.
- Predatory pricing would be pricing *below cost* to drive rivals out, which is different.

Question 5 (Answer: **D**)

- Demand rising means the firm can sell more at every price, so both AR and MR shift right.
- The profit-maximising output is where MC = MR, so output rises.
- With MC = ATC constant, the higher price raises profit per unit as well as total profit.

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Question 1 (Answer: **D**)

- Collusion is easier with few firms, similar costs and the ability to detect cheating.
- So anything that makes cheating hard to spot, or the group large, works against it.
- Abolishing anti-trust measures would *help* collusion, so it is not a barrier.

Question 8 (Answer: **A**)

- Privatisation transfers a service to private ownership, usually with competing operators.
- More competition should raise efficiency and give consumers more choice.
- Higher prices and reduced service on unprofitable routes are the *risks*, not the benefits.