Following are possible answers to the Reading Notes.

Section 2

1. Mnemonic phrases will vary.

   Number of producers: the number of producers in a given market

   Similarity of products: the degree to which products in a market are similar

   Ease of entry: a measure of how easy it is to start a new business and compete with established businesses

   Control over price: the degree to which producers can influence prices by increasing or decreasing the supply of goods (also known as market power)

2. Diagrams will vary. The main spokes should be the four main characteristics of perfect competition: many producers and consumers, identical products, easy entry into the market, and no control over prices.

3. Answers will vary.

Section 3

1. Imperfect competition is any market structure in which producers have some control over the price of their products because the market is not allocating goods and services in the most efficient way.

2. Diagrams will vary. The main spokes should be the four main characteristics of monopoly: one producer, unique product, high barriers to entry, and substantial control over prices.

3. Answers will vary.

Section 4

1. Diagrams will vary. The main spokes should be the four main characteristics of oligopoly: few producers (high concentration ratio), similar products, high barriers to entry, and some control over prices.

2. Oligopolies can end up acting like monopolies by driving prices above the equilibrium price using one of these methods: price leadership, when one dominant firm sets prices and others follow suit; collusion, when producers agree on production levels and pricing; or a cartel, when an organization of producers is established to set production and price levels for a product.

3. Answers will vary.

Section 5

1. Diagrams will vary. The main spokes should be the four main characteristics of monopolistic competition: many producers, differentiated products, few barriers to entry, and some control over prices.

2. Ads should demonstrate understanding of the four factors of nonprice competition: physical characteristics, service, location, and status and image.

3. Answers will vary.

Section 6

1. Answers will vary.

2. Positive externalities are considered market failures because they tend to be underproduced relative to their benefits. Negative externalities signal that the market is not working efficiently because they tend to be overproduced relative to their costs. Both results occur because someone other than the producer and the consumer in an economic transaction is affected.

3.

	Private Good	Public Good
Provided by market system?	Yes; producers can sell private goods for profit.	No; no incentive for producers; the government must provide.
Excludable?	Yes; available only to consumers who purchase the product.	No; available to everyone.
Rival in consumption?	Yes; consumption by one person prevents another from consuming.	No; consumption by one person does not prevent others from consuming.