

Principles of Microeconomics

Exam IIIa

Mark the one best answer on your scantron. Show your calculations on the scantron. Do not mark on this exam.

1. Which of the following are characteristics of a competitive market?
 - I. many buyers, many sellers
 - II. heterogeneous goods
 - III. homogeneous goods
 - IV. free exit, no entry
 - a) I, II, III, IV
 - b) I, III, IV
 - c) II, III
 - d) II, III, IV
 - e) none of the above

2. Free entry but not free exit implies risk as _____.
 - a) losses are easy to cut
 - b) losses cannot be stopped easily
 - c) taxes may increase
 - d) a firm cannot be sure of how long free exit will continue
 - e) none of the above

3. In a competitive market, the key operating decision is _____.
 - a) pricing
 - b) production
 - c) advertising
 - d) based on what other firms will do
 - e) none of the above

4. In the short run _____ is variable.
 - a) price
 - b) demand
 - c) cost
 - d) supply
 - e) none of the above

5. Competitive markets achieve both _____ and _____ efficiencies.
 - a) cost, production
 - b) production, profit
 - c) income, profit
 - d) productional, allocational
 - e) none of the above

6. Which of the following is a major assumption of a monopolistic market?
 - a) One buyer, many sellers
 - b) one buyer, one seller
 - c) free entry, free exit
 - d) one seller, many buyers
 - e) none of the above

7. A structural entry barrier can deter potential entrants by _____.
 - a) achieving lowest cost production
 - b) earning large profits
 - c) high sales growth
 - d) low taxes
 - e) none of the above

8. Because a monopolistic firm is the only seller, it _____.
 - a) has the lowest cost
 - b) has the highest cost
 - c) faces the market demand curve
 - d) has a flat MR curve
 - e) none of the above

9. Monopolies must consider _____ in decision making.
 - a) Price and quantity
 - b) price
 - c) price and advertising
 - d) the competition
 - e) none of the above

10. Government economics policy towards monopolization tries to prevent it by _____.
 - a) splitting up the firm
 - b) taxing its profits
 - c) setting price
 - d) minimizing costs
 - e) none of the above

11. Which of the following is a major assumption of a monopolistically competitive market?
- a) Has lowest cost
 - b) some barrier to entry
 - c) has lowest profit
 - d) free entry
 - e) none of the above
12. Advertising increases costs while it _____.
- a) decreases total costs
 - b) decreases demand
 - c) increases taxes
 - d) increases demand
 - e) none of the above
13. What is price discrimination?
- a) Charging different prices to different customers.
 - b) Charging the same price to everyone
 - c) Finding price elastic buyers.
 - d) few customers and many sellers
 - e) none of the above
14. What is block pricing?
- a) Prices rounded to the nearest dollar.
 - b) One price for any number of units of a product.
 - c) Packaging several units of one product together.
 - d) Packaging one unit of one product.
 - e) none of the above
15. Monopolistically competitive firms _____ allocational efficiency.
- a) enjoy
 - b) lack
 - c) increase
 - d) have
 - e) none of the above

16. Oligopolistic firms _____ before they make an operating decision.

- a) consult with their lawyers
- b) advertise
- c) must consider the actions of other firms
- d) lower their costs
- e) none of the above

17. In a kinked demand situation, price is regarded as sticky as _____.

- a) any change dramatically lowers revenue
- b) any change increases cost
- c) any change decreases cost
- d) any change does not change profit
- e) none of the above

18. What is a cartel?

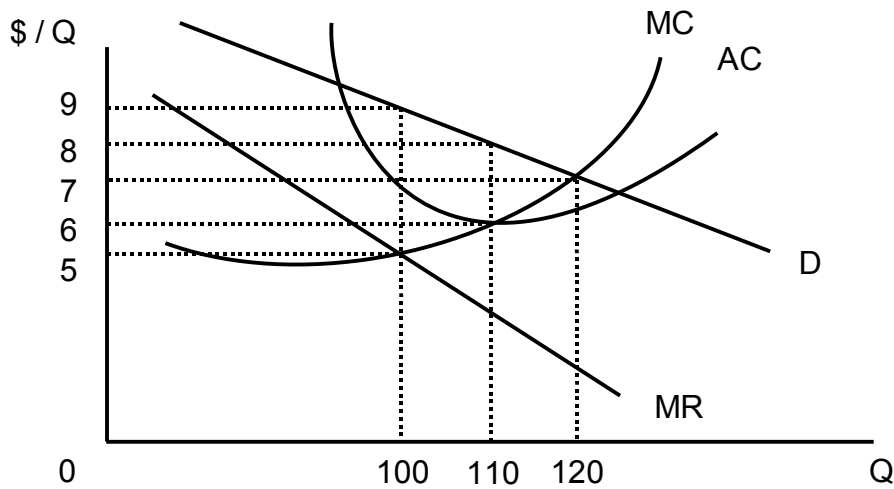
- a) Several firms acting as one.
- b) One firm dominating the industry.
- c) The government.
- d) An industry association.
- e) none of the above

19. What is a barometric firm?

- a) A new firm.
- b) An old firm.
- c) A potential entrant.
- d) A representative firm.
- e) none of the above

20. How does an oligopoly achieve allocative efficiency?

- a) By lowering prices.
- b) By increasing production.
- c) By cooperating with rivals.
- d) It doesn't.
- e) none of the above



21. Which volume maximizes profit?

- a) 0
- b) 100
- c) 110
- d) 120
- e) none of the above

22. At a quantity of 110, what is the price?

- a) 5
- b) 7
- c) 8
- d) 0
- e) none of the above

23. At a quantity of 110, what is the total cost?

- a) 700
- b) 660
- c) 720
- d) 880
- e) none of the above

24. At a quantity of 110, what is the profit?

- a) 100
- b) 110
- c) 220
- d) 400
- e) none of the above

25. At a volume of 110 what is the Return On Sales (ROS)?

- a) 9%
- b) 8%
- c) 7.5%
- d) 6%
- e) none of the above

Two firms, iKnow and uKnow, whom sell gizmos, are battling for market share. Each has to decide whether to advertise to college students or businesses. Payoffs are terms of profit.

		uKnow	
		Students	Businesses
iKnow	Students	40, 30	25, 20
	Businesses	20, 25	30, 40

26. What are the basic elements of a game?
 - a) Students, Businesses
 - b) iKnow, uKnow
 - c) iKnow, uKnow, Students, Businesses
 - d) Players, Actions, and Payoffs
 - e) none of the above

27. What is the payoff to iKnow for business given that uKnow markets to Students?
 - a) 20
 - b) 25
 - c) 30
 - d) 40
 - e) none of the above

28. What is the best action of uKnow given that iKnow markets to Business?
 - a) Students
 - b) Business
 - c) Business then Students
 - d) Students then Business
 - e) none of the above

29. If iKnow moves first, what is her best move?
 - a) Students
 - b) Business
 - c) Dominate
 - d) Dominated
 - e) none of the above

30. What is the outcome of the original game?
 - a) iKnow Business, uKnow Students
 - b) iKnow Business, uKnow Business
 - c) iKnow Students, uKnow Students
 - d) iKnow Students, uKnow Business
 - e) none of the above

Microeconomics Exam III a Key

- 1 E I, III are correct
- 2 B If one cannot leave a failing market, then one fails. That is risk.
- 3 B In perfect competition, price is fixed by the market and advertising is useless, only production counts.
- 4 B Firms cannot adjust capacity (supply) in the short run, only demand changes. In the long run, demand tends to be more stable, or at least the fluctuations cancel out.
- 5 D All other metrics are measures associated with input or output.
- 6 D Monopolistic markets must have restricted entry to maintain limited supply.
- 7 A Lowest cost producers can also price low thus driving out competition.
- 8 C Cost does not in itself define monopoly, flat MR is a competitive market.
- 9 A Monopolies do not need to advertise. Price determines quantity, so both must be considered.
- 10 A B & C do not prevent monopolies. D is how firms establish a monopoly.
- 11 B Entry barriers are the key to success, to earn profit. C & D are the opposite. A may help establish an entry barrier but does not in itself define monopolistic competition.
- 12 D The purpose of advertising is to increase demand.
- 13 A B is the absence of price discrimination. C is the opposite of price discrimination. D triggers a competitive market which usually is not conducive to price discrimination.
- 14 C None of the other answers imply one price for buying a block of product.
- 15 B Allocational efficiency is about charging the lower price. Monopolistic firms charge higher prices to earn higher profits.
- 16 C Your first instinct might have been 'A', it must be thinking about competitors. B & D are action and/or decisions.
- 17 A Costs do not change per se and D is the opposite of A.
- 18 A B is a monopoly, government is not a firm and an association does not necessarily act as a cartel.
- 19 D A & B are not the definition of a barometric firm. C does not work as a firm not in the market cannot be a barometric firm.
- 20 D These firms want to achieve economic profit. There is no economic profit with allocational efficiency.
- 21 B At the point where $MR = MC$.
- 22 C Go to demand curve and look left.
- 23 B $110 * 6 = 660$
- 24 C $(8-6) * 110 = 220$
- 25 E $(8-6)/8 = 25\%$
- 26 D A thru C are either players or actions. They do not include payoffs.
- 27 A Look at the intersection of iknow business with uknow students, iknow's payoff is the first number in the payoffs.
- 28 B Look at the intersection of iknow business with uknow students and business, uknow's payoff is the second number in the payoffs, pick the strategy with the highest number.
- 29 A After iknow picks students, uknow will pick students because that maximizes his payoff.
- 30 E There is no obvious single strategy for either player at this level of knowledge.