Eco201, Fall 2005, Quiz 7, Prof. Bill Even

Name___________________________________

1) Within a monopolistically competitive industry,
   A) firms are not able to collude because there are too many of them.
   B) firms can charge a higher price for a higher quality product.
   C) each firm faces a downward sloping demand curve.
   D) All of the above answers are correct.

2) Firms in monopolistic competition always will
   A) produce at the minimum average total cost.
   B) earn an economic profit.
   C) set their price above their marginal cost.
   D) set their price equal to their marginal cost.

3) In the above figure, if the firm is in monopolistic competition, its price will be

4) In the above figure, the monopolistically competitive firm earns an economic profit of
   A) between $0 and $50 per day.        B) $0.
   C) greater than $100.01 per day.      D) between $50.01 and $100 per day.
5) In the above figure, the deadweight loss associated with the profit maximising output is:
   A $0
   B approximately $10
   C approximately $30
   D approximately $60.

6) In monopolistic competition, in the long run firms produce
   A) more output than that which minimizes their ATC.
   B) less output than that which minimizes their ATC.
   C) the amount of output that minimizes their ATC but not their AVC.
   D) the amount of output that minimizes their ATC and their AVC.

To answer the next 5 questions, consider the diagrams below representing the market for milk and the typical firm's cost curves.

7) If a cartel agreement is formed among milk producers and their objective is to maximize profits for the industry, how much would the industry (i.e. all firms combined) produce per month?
   a. 200 thousand.  
   b. 250 thousand.  
   c. 300 thousand  
   d. none of the above.

8) If the milk industry is at a competitive long run equilibrium, how much would the industry produce per month?
   a. 200 thousand.  
   b. 250 thousand.  
   b. 300 thousand  
   d. none of the above.

9) If a cartel agreement is formed among milk producers and their objective is to maximize profits for the industry, the price of milk will be:
   a. $.50  
   b. $.75  
   c. between $.75 and $1  
   d. $1

10) If a cartel agreement is formed, milk consumers will be made worse off by
   a. $56,250 per month.  
   b. $50,000 per month.  
   b. $62,500 per month.  
   d. none of the above.
11). If a cartel is formed, producers will have an incentive to cheat by:
   a. reducing production because price is above ATC.
   b. reducing production because price is above marginal cost.
   c. increasing production because price will be above marginal cost.
   d. increasing production because ATC is not at its lowest point.

12) Which firm has recently paid a fine of nearly $300 million for price-fixing?

13) Which firms were recently denied permission to merge?
   a. Staples and Office Max  
   b. Samsung and Sony  
   c. Chase Financial Services and Vanguard Financial Services.  
   d. Jaguar and Mercedes-Benz.

14) Resale price maintenance
   a. exists when a wholesaler dictates to the retailer a minimum price that must be charged for its product.
   b. could be used by a wholesaler to enforce a cartel agreement among its retailers.
   c. may be required to prevent discount stores from driving retail outlets with a high level of service out of business.
   d. all of the above.

15. If a person is on the board of directors of both GM and Ford, this would be:
   a. an interlocking directorate.
   b. Illegal under the Robinson-Patman Act.
   c. A tying contract.
   d. Illegal under the Miller Act.

16. Other things being the same, a merger between two companies is more likely to be challenged by the Department of Justice if:
   a. the HHI for the industry the firms are located in is very low.
   b. It is very easy for the firms in the industry to monitor each others’ pricing behavior.
   c. There are very few barriers to entry into the industry.
   d. All of the above.
17. Deregulation of the airline industry resulted in (lower, higher) airline ticket prices, 
(increased, decreased) consumers’ surplus, and (increased, decreased) producers’ 
surplus.
   a. lower; increased; increased.     b. Lower; increased; decreased.
   c. Higher; decreased; increased.   d. Higher; decreased; decreased.

18. Government regulation of industry
   a. benefits the firms in the industry according to the “capture theory” of regulation.
   b. Benefits consumers of the industry’s product according to the “capture theory” of 
      regulation.
   c. Benefits the firms in the industry according to the “public interest” theory of regulation.
   d. All of the above.

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