

Eco 100 Spring 2018 Exam 3

Please answer all 20 questions. Please use the answer sheet provided by me. Please submit your answers to the Exam 1 drop box no later than 5:00pm on May 4th. This is an individual exercise, absolutely no assistance from anyone. You are on the honor system in that regard.

1. In which *two* market models would advertising be used most often?

- A. Pure competition and monopolistic competition
- B. Pure competition and pure monopoly
- C. Monopolistic competition and oligopoly
- D. Pure monopoly and oligopoly

2. Which idea is *inconsistent* with pure competition?

- A. Short-run losses
- B. Product differentiation
- C. Freedom of entry or exit for firms
- D. A large number of buyers and sellers

3. The steel and automobile industries would be examples of which market model?

- A. Monopolistic competition
- B. Pure competition
- C. Pure monopoly
- D. Oligopoly

4. Pure competition produces a socially optimal allocation of resources in the long run because:

- A. Marginal cost equals marginal revenue
- B. Marginal cost equals average total cost
- C. Marginal revenue equals price
- D. Marginal cost equals price

5. A monopoly is most likely to emerge and be sustained when:

- A. Output demand is relatively elastic
- B. Firms have U-shaped, average-total-cost curves
- C. Fixed capital costs are small relative to total costs
- D. Economies of scale are large relative to market demand

6. X-inefficiency is said to occur when a firm's:

- A. Average costs of producing any output are greater than the minimum possible average costs
- B. Marginal costs of producing any output are greater than the minimum possible total costs
- C. Total costs of producing any output are greater than the minimum possible average costs
- D. Short-run costs of producing any output are greater than the long-run costs

7. Which statement is correct?

- A. Monopolist firms tend to be more internally efficient than competitive firms because they have a single goal of profit maximization
- B. Monopolist firms are sheltered from competitive forces and such an environment makes them subject to X-inefficiency
- C. Monopolist firms are in industries with low barriers to entry that tend to lower the cost of producing products
- D. Competitive firms tend to be more efficient than monopolist firms because they maximize per unit profits, not total profits

8. Which would be evidence of price discrimination at a local bar called the Stabilizer?

- A. Charging higher prices than under perfect competition
- B. Charging higher prices for imported than for domestic beer
- C. Charging lower prices to customers wearing Stabilizer T-shirts
- D. Charging lower prices to people who bring their own glasses and pitchers

9. Which would definitely *not* be an example of price discrimination?

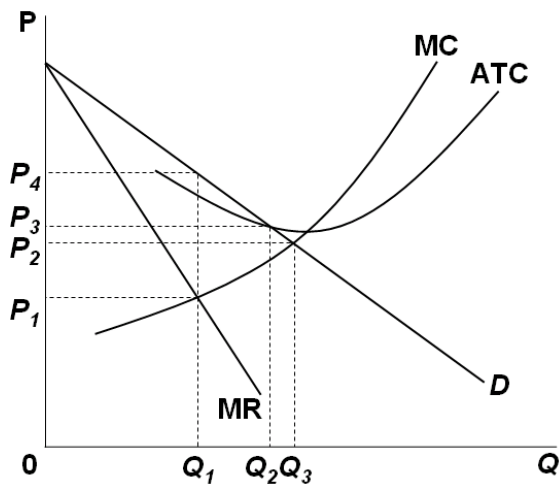
- A. A theater charges children less than adults for a movie
- B. Universities charge higher tuition for out-of-state residents
- C. A doctor charges for services according to the income of patients
- D. An electric power company charges less for electricity used during off-peak hours when production costs are lower

10. Which case below best represents a case of price discrimination?

- A. An insurance company offers discounts to safe drivers
- B. A major airline sells tickets to senior citizens at lower prices than to other passengers
- C. A professional baseball team pays two players with identical batting averages different salaries
- D. A utility company charges less for electricity used during "off-peak" hours, when it does not have to operate its less-efficient generating plants

11. Electric utilities generally charge higher prices for electricity used for illumination and lower prices for electricity used for heat. These lower prices for electric heat result primarily from:

- A. The existence of good heating substitutes
- B. Economies of scale in electric heat generation
- C. Prices for electric heat being set at the socially optimal level
- D. Strict government regulation of the price charged for electric heat



12. Refer to the above graph. If the government regulated the monopoly shown and forced it to produce the level of output where there is fair-return price, what price and quantity levels would we observe in the short run?

- A. P_1 and Q_1
- B. P_2 and Q_3
- C. P_3 and Q_2
- D. P_4 and Q_1

13. Refer to the above graph. If the government regulated the monopoly shown and forced it to produce the level of output where there is an optimal allocation of scarce resources, what price and quantity levels would we observe in the short run?

- A. P_1 and Q_1
- B. P_2 and Q_3
- C. P_3 and Q_2
- D. P_4 and Q_1

14. With a natural monopoly, the fair return price:

- A. Is allocatively efficient; the socially optimal price is allocatively inefficient
- B. Is allocatively inefficient; the socially optimal price is allocatively efficient
- C. And the socially optimal price are both allocatively inefficient
- D. And the socially optimal price are both allocatively efficient

15. What is the meaning of the phrase "dilemma of regulation"?

- A. Natural monopolies achieve economies of scale, but charge high prices when there is no government regulation; government regulation reduces prices, but results in diseconomies of scale
- B. Natural monopolies are profitable, but only if the government permits price discrimination; government regulation to restrict price discrimination reduces monopoly prices, but the regulation also reduces monopoly output
- C. The fair return price achieves allocative efficiency, but may produce economic losses; the socially optimal price yields a normal profit but may not be allocatively efficient
- D. The socially optimal price achieves allocative efficiency, but may produce economic losses; the fair return price yields a normal profit but may not be allocatively efficient

16. Mutual interdependence means that each firm in oligopolistic industry:

- A. Faces a perfectly inelastic demand for its product
- B. Considers the reactions of its rivals when it determines its price policy
- C. Produces a product identical to the products produced by its rivals
- D. Produces a product similar but not identical to the products produced by its rivals

17. In which set of market models are there the most significant barriers to entry?

- A. Monopolistic competition and pure competition
- B. Monopolistic competition and pure monopoly
- C. Oligopoly and monopolistic competition
- D. Oligopoly and pure monopoly

18. The larger the diameter of a natural gas pipeline, the lower is the average total cost of transmitting 1,000 cubic feet of gas 1,000 miles. This is an example of:

- A. **Economies of scale**
- B. Normative economies
- C. Diminishing marginal returns
- D. An increasing marginal product of labor

19. If all resources used in the production of a product are increased by 10 percent and output increases by less than 5 percent, then the firm is experiencing:

- A. Economies of scale
- B. **Diseconomies of scale**
- C. Constant returns to scale
- D. Decreasing average total costs

20. When the Defense Department ordered 132 new airplanes, the cost per plane was estimated to be \$580 million. A cut in the order to 75 planes increased the per plane cost to \$800 million. This change in per unit cost can be explained by:

- A. A move to minimum efficient scale
- B. The law of diminishing returns
- C. **The loss of economies of scale**
- D. An increase in fixed cost

