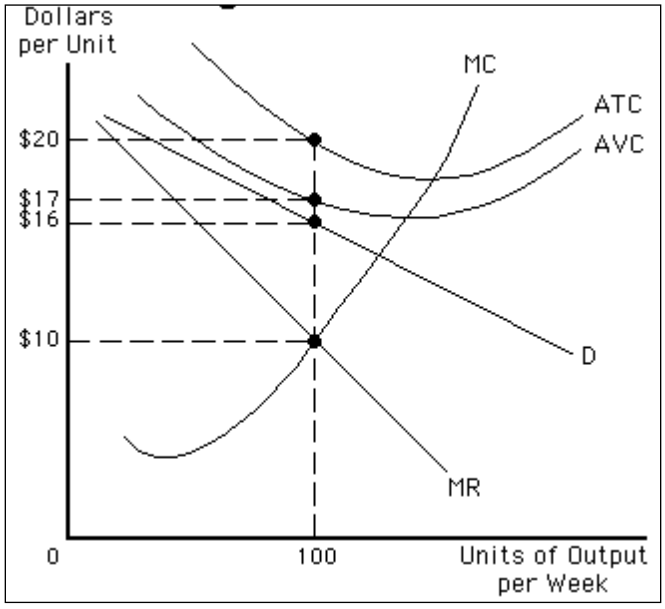
ECON1005 Assignment 8

1. A firm in a monopolistically competitive market is similar to a monopolist in the sense that it
   a. must overcome significant barriers to entry
   b. faces a downward-sloping demand curve
   c. produces a large share of the market output
   d. is dependent on the actions of other firms
   e. produces the same product as its competitors do

2. The demand curve faced by a monopolistically competitive firm
   a. is the same as the market demand curve
   b. is less elastic than the one faced by firms in perfect competition
   c. is perfectly elastic
   d. is perfectly inelastic
   e. Is vertical

3. If the firms in a monopolistically competitive market are earning short-run economic profits, then
   a. each existing firm will increase output in the long run as its marginal revenue curve shifts rightward
   b. each firm will experience an increase in the demand for its output in the long run
   c. each firm's profit will drop to normal in the long run as its demand curve shifts leftward due to entry of new firms
   d. barriers to entry will enable them to earn economic profits in the long run
   e. decreased demand for a key input will reduce that input's price in the long run and lower each firm's average total cost curve



4. Consider the monopolistically competitive firm whose demand curve and cost structure are illustrated in the above figure. Which of the following statements is correct in the short run?
   a. The firm will produce 100 units and suffer a loss of $400 per week
   b. The firm will produce 100 units and suffer a loss of $300 per week
   c. The firm will produce 100 units and suffer a loss of $1,000 per week
   d. The firm will produce 100 units and suffer a loss of $100 per week
   e. The firm will produce zero units and suffer a loss of $300 per week

5. In monopolistic competition, non-price competition
   a. allows firms to earn above-normal profit in the long run
   b. initially causes a leftward shift in the demand curve for each firm's output
   c. causes each firm to move upward along a given average total cost curve
   d. might lead to economic profit in the short run
   e. causes each firm to move toward the right along the given demand curve for its output

6. An *oligopoly* is a market
   a. dominated by a single seller
   b. dominated by a single buyer
   c. dominated by a small number of strategically interdependent firms
   d. with many buyers and sellers, no barriers to entry and differentiated products
   e. with many buyers and sellers, no barriers to entry and a standardized product

7. If the sellers in a market are aware of their strategic interdependence, then
   a. each firm bases its pricing and output decisions on the monopoly model
   b. each firm, when making pricing or output decisions, must consider the reactions of its competitors
   c. the firms have little incentive to collude in their pricing and output decisions
   d. the firms undertake little advertising because they cannot recoup the cost through higher prices
   e. no firm is able to earn above-normal profit in the long run

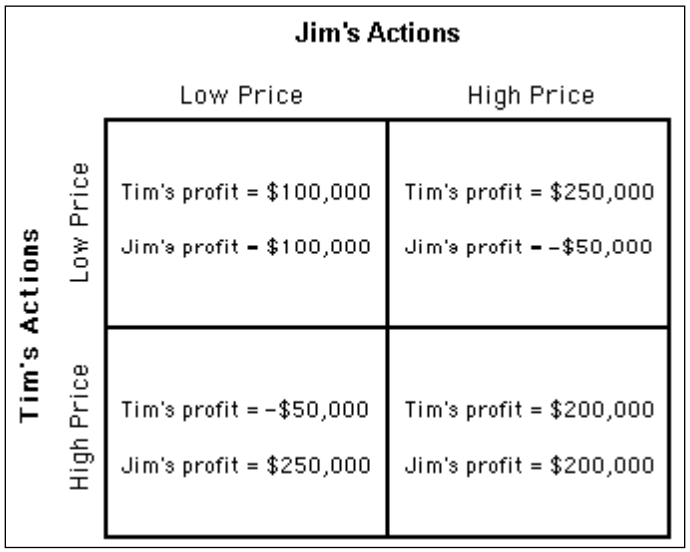
8. If a cartel is formed in order to maximize the total profits of its members, it will
   a. charge the monopoly price, but produce more output than a monopoly would
   b. produce the monopoly output, but charge a lower price than a monopoly would
   c. charge the same price, and produce the same quantity that a monopoly would
   d. charge a higher price and produce more output than a monopoly would
   e. charge the monopoly price, but total output may be higher or lower than a monopoly's

9. Limits to collusion include
   a. price discrimination
   b. economies of scale
   c. horizontal market demand curves
   d. high prices
   e. incentives to cheat on the collusive agreement

10. As a form of tactic collusion, under price leadership
    a. the leader must be the biggest firm in the industry
    b. firms may take turn to be the leader and all firms follow price changes initiated by the leader
    c. price cuts are followed by other firms in the industry, but price increases are not
    d. price increases are followed by other firms in the industry, but price cuts are not
    e. price wars often occur as a result of tit-for-tat strategies

11. If there are a large number of sellers in a market,
    a. it is difficult for firms to cheat on a collusive agreement
    b. a cartel is unlikely to break down
    c. prices are higher than in smaller markets
    d. a cartel is likely to break down
    e. perfect competition occurs in the long run

12. A strategy that is best for a player regardless of the strategy of the other player is called a(n)
    a. subsistence strategy
    b. determinant strategy
    c. dominant strategy
    d. independent strategy
    e. autonomous strategy



13. Consider the above payoff matrix for the only two auto dealerships in a community, Jim's Autos and Tim's Autos. The matrix shows the profits that each firm would earn from choosing either a low price or a high price. In this example
    a. both firms would be best off if they charged a low price
    b. there is no equilibrium to the market
    c. both firms would be best off if they charged a high price
    d. both firms will go out of business in the long run
    e. the market is more efficient than a perfectly competitive market

14. Consider the above payoff matrix for the only two auto dealerships in a community, Jim's Autos and Tim's Autos. The matrix shows the profits that each firm would earn from choosing either a low price or a high price. Jim's dominant strategy is to
    a. always charge a low price
    b. always charge a high price
    c. charge a high price if Tim charges a low price
    d. charge a low price only when Tim charges a low price
    e. follow the price leadership of Tim's Autos

		Firm B	
		VR	AR
Firm A	VR	25, 25	40, 20
	AR	20, 49	15, 15

15. The table above shows the payoffs (in millions of dollars) for two tech companies, A and B, who must each choose to focus their product launch on either Virtual Reality (VR) devices or Augmented Reality (AR) devices. *If Company A makes its decision first*, then:
    a. Both companies choose VR, resulting in payoffs of (25, 25).
    b. Company A chooses AR, and Company B chooses VR, resulting in payoffs of (20, 40)
    c. Company A chooses VR, and Company B chooses AR, resulting in payoffs of (40, 20)
    d. Both companies choose AR, resulting in payoffs of (15, 15)
    e. Company A chooses AR, and Company B chooses AR, resulting in payoffs of (15, 15).