

Sample Exam 4 Questions  
Econ 349

1. If a monopoly is maximizing profits:
  - a) price will always be greater than average cost.
  - b) price will always be equal to marginal cost.
  - c) price will always be greater than marginal cost.
  - d) price will always equal marginal revenue.
  - e) none of the above are correct.
  
2. Which of the following is an example of first-degree price discrimination?
  - a) a movie theatre gives senior citizen discounts.
  - b) an electric utility that gives quantity discounts.
  - c) a grocery store that doubles the value of coupons.
  - d) a prestigious regional liberal arts college charges each student the maximum tuition that they are willing to pay.
  - e) a carnival game that charges \$0.30 per try and \$1.00 for four tries.
  
3. The demand curve facing a monopolist is \_\_\_\_\_, while the demand curve facing a competitive firm is \_\_\_\_\_.
  - a) downward sloping; downward sloping.
  - b) upward sloping; downward sloping.
  - c) downward sloping; horizontal.
  - d) horizontal; downward sloping.
  - e) horizontal; horizontal.
  
4. Which group of consumers would be most likely to be better off under price-discriminating monopoly than under non-discriminating monopoly?
  - a) the group with the least elastic demand.
  - b) the group with the most elastic demand.
  - c) a group with exactly unit elastic demand.
  - d) no one is better off under discriminating monopoly.
  
5. All monopolies exist because of:
  - a) firms' desire to maximize profits.
  - b) failure of antitrust laws.
  - c) the survivor principle.
  - d) barriers to entry.
  - e) technological features of the production function.
  
6. When a game has more than one Nash equilibrium,
  - a) at least one of them will be Pareto optimal.
  - b) they will all tend to be unstable.
  - c) they must provide the same total payoff to the players.
  - d) it is difficult to predict which of them will actually occur.

7. A dominant strategy is one which:
- is best for a player no matter what strategy the other player chooses.
  - is optimal given the other player's strategy, but may not be optimal should the other player switch strategies.
  - will lead to a Pareto-optimal outcome.
  - in a sequential game, is optimal when the other player's best response is taken into account.
8. Which of the following is not a source of monopoly power?
- increasing returns to scale.
  - patents on products or processes.
  - exclusive control over an essential resource.
  - rising marginal costs.
9. In order to practice any form of price discrimination, a monopoly must be able to:
- identify the maximum price that each customer is willing to pay.
  - separate its customers into distinct groups.
  - prevent resale of its product.
  - all of the above are necessary to successfully practice price discrimination.
10. When a firm with market power practices third-degree price discrimination, it charges the highest price to the group that:
- has the most elastic demand.
  - has the most inelastic demand.
  - purchases the highest quantity.
  - purchases the lowest quantity.
11. Two computer firms, A and B, are planning to market network systems for office information management. Each firm can develop either a fast, high-quality system (H), or a slower, low-quality system (L). Market research indicates that the resulting profits to each firm for the alternative strategies are given by the following payoff matrix:

		Firm B	
		H	L
Firm A	H	Firm A gets 30 Firm B gets 30	Firm A gets 50 Firm B gets 35
	L	Firm A gets 40 Firm B gets 60	Firm A gets 20 Firm B gets 20

- If both firms make their decisions at the same time and follow maximin (low-risk) strategies, what will the outcome be? (Remember, maximin is to maximize the minimum gain from the available strategies.) [2 points]
- Suppose both firms try to maximize profits, but Firm A has a head start in planning, and can commit first. Now what will the outcome be? What will be the outcome if Firm B has a head start in planning and commit first? [4 points]
- What outcomes, if any, are Nash equilibria? Explain. [2 points]
- What outcomes, if any, are Pareto optimal? Explain. [2 points]

See the problem set for other similar “word” problems.

