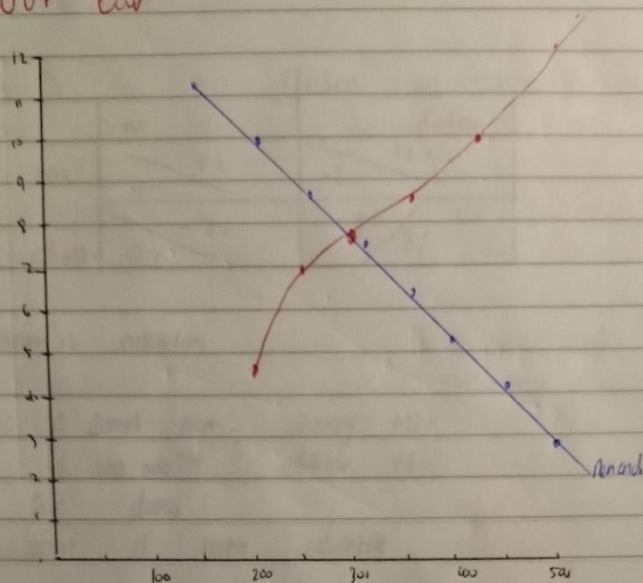


2009 Exam

Q1

Q1



a) $MR = MC = 7.5$

b) $Q = 300$ $300 \div 1000 = 0.3$ boxes each

c) $TR - TC = 2295 - 3129 = -834 \div 1000 = \text{loss of } -0.834$
cent per

d) firm exit market

(e) firm required shut down at minimum average variable cost = 250 output.

Econ 2009

Q 2A.

		Tesco	
		none	advertising
Asda	none	4% / 4%	-2% / 12%
	advertising	12% / -2%	8% / 8%

i. Equilibrium is advertising

Tesco: If Asda none: advertising +12%
 if Asda advertise: advertise +8%

Same for Asda

Equilibrium is both advertise

ii. Two games are similar.
 Equilibrium is for both to advertise

However if they were cooperative they could both deny and get 2 years. Same for Asda would both make 8% instead of 4%.

b

		Sally	
		comply	cheat
Sue	comply	1m / 1m	-0.5 / 1.5m
	cheat	1.5m / -0.5	0 / 0

i. Equilibrium is to cheat:

Sue: If Sally complies: cheat with extra profit = 1.5m
 if Sally cheats: cheat or else lose -0.5

Same for Sally

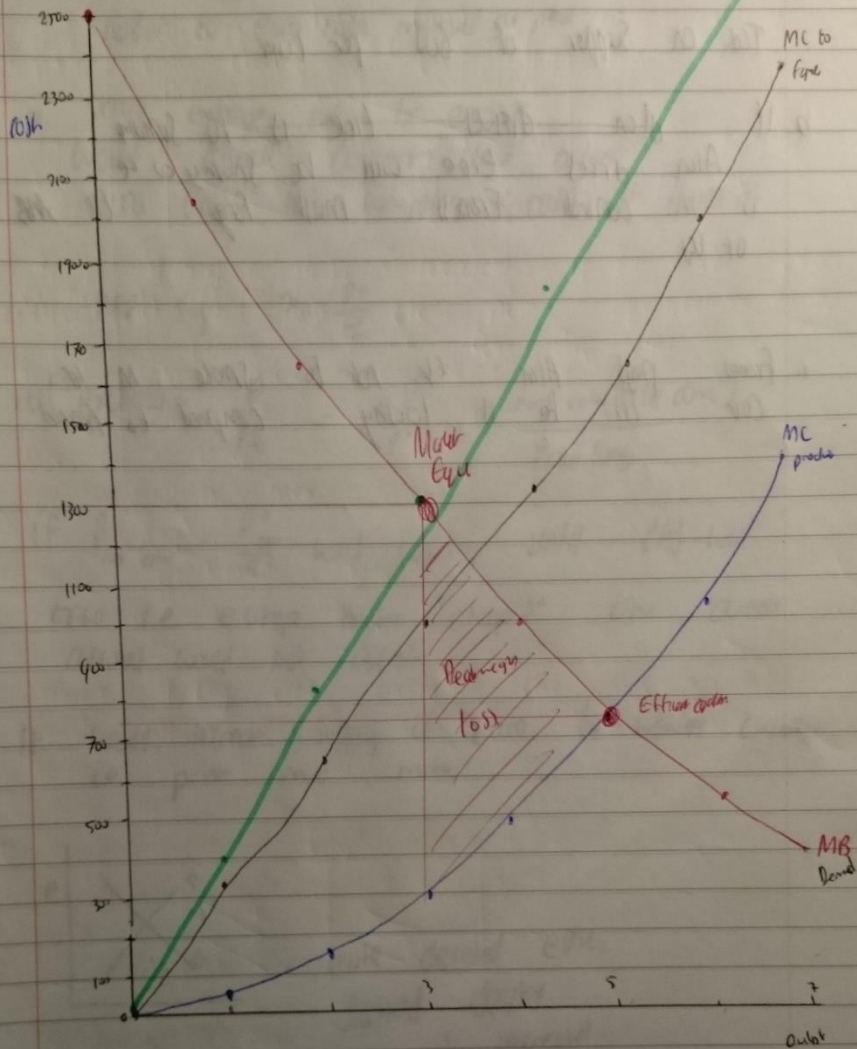
ii Cooperative equilibrium- both firms agree on an outcome rather than cheating so they either make some profit

Tit-for-Tat- This is where players are rewarded if they play the cooperative in last game and some for every

Trigger Strategy- a player cooperates if the other player cooperates but plays the Nash equilibrium strategy forever if the other player cheats

Econ 2009

Q 3



i. equilibrium is 5 tons at £750 $MC = MB$
 MC on farm is 1670

ii. equilibrium is £1300 and $Q = 3$
 It is the combine of MC produce + MC Farmer graph including
 MB curve

Tax on Supply of 600 per unit

b. If Alan drives there is no smoking
Alan drives there will be smoking as he
is in control. Frank must stop the car
or get

ii. Frank pays Alan to stop in his
car (1) he is looking compared to Frank