Old Exam Questions Which Cover Chapter 14 Topics

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) An oligopolist differs from a perfect competitor in that 1) ________
   A) the market demand curve for a perfectly competitive industry is perfectly elastic but it is downward-sloping in an oligopolistic industry.
   B) firms in an oligopoly do not produce homogeneous products while firms in perfect competition do.
   C) there are no entry barriers in perfect competition but there are entry barriers in oligopoly.
   D) there is cutthroat competition in perfect competition but little competition in oligopoly because firms have significant market power.

2) In an oligopoly market 2) ________
   A) one firm's pricing decision affects all the other firms.
   B) individual firms pay no attention to the behavior of other firms.
   C) advertising of one firm has no effect on all other firms.
   D) the pricing decisions of all other firms have no effect on an individual firm.

3) Marginal revenue for an oligopolist is 3) ________
   A) identical to the demand for the firm's product.
   B) horizontal on a price-quantity diagram.
   C) downward sloping beneath the firm's demand curve.
   D) difficult to determine because the firm's demand curve is typically unknown.

4) Economies of scale can lead to an oligopolistic market structure because 4) ________
   A) a few firms can use high profits to keep out new entrants.
   B) a few firms can force rivals to produce at low levels of output.
   C) if economies of scale are insignificant, only a few firms are able to produce at the low costs achieved by the big established firms.
   D) if larger firms have lower costs, new small entrants will not be able to produce at the low costs achieved by the big established firms.

5) A dominant strategy 5) ________
   A) involves colluding with rivals to maximize joint profits.
   B) is one that is the best for a firm, no matter what strategies other firms use.
   C) is one that a firm is forced into following by government policy.
   D) involves deciding what to do after all rivals have chosen their own strategies.

6) What is a prisoner's dilemma? 6) ________
   A) a game in which players act in rational, self-interested ways that leave everyone worse off
   B) a game in which players collude to outfox authorities
   C) a game that involves no dominant strategies
   D) a game in which prisoners are stumped because they cannot communicate with each other

Table 13–2

		Wal-Mart's (W) Choices	
		High Price	***Low price***
Target's (T) Choices	***High Price***	W: $10,000 profit T: $10,000 profit	W: $5,000 profit T: $14,000 profit
	Low price	W: $14,000 profit T: $5,000 profit	W: $7,000 profit T: $7,000 profit

Table 13–2 shows the payoff matrix for Wal–Mart and Target from every combination of pricing strategies for the popular PlayStation 3. At the start of the game each firm charges a low price and each earns a profit of $7,000.

7) ***Refer to Table 13–2.*** Is the current strategy in which each firm charges the low price and earns a profit of $7,000 a Nash equilibrium? If not, why and what is the Nash equilibrium? 7) ________

A) No, the current situation is not a Nash equilibrium; it is a dominant strategy equilibrium. There is no Nash equilibrium in this game.

B) No, it is not a Nash equilibrium because each firm can do better by charging the high price. The Nash equilibrium occurs when each firm charges the high price and earns a profit of $10,000.

C) No, the current situation is not a Nash equilibrium. The Nash equilibrium for each firm is to have the other charge a high price and for the firm in question charge a low price.

D) Yes, the current situation is a Nash equilibrium.

8) ***Refer to Table 13–2.*** For each firm, is there a better outcome than the current situation in which each firm charges the low price and earns a profit of $7,000? 8) ________

A) No, any other strategy hurts consumers.

B) Yes, each firm can implicitly agree to increase output and not to deviate from a low price.

C) No, there is no incentive for each firm to consider any other strategy.

D) Yes, the firms can implicitly collude and agree to charge a higher price.

9) ***Refer to Table 13–2.*** Suppose Wal–Mart and Target both advertise that they will match the lowest price offered by any competitor. What is the purpose of such a strategy? 9) ________

A) to signal to each other to share the market equally

B) to signal to each other that they will not hesitate to initiate a price war

C) to signal to each other that they intend to charge the high price

D) to gain new customers by "treating them fairly"

Table 13–1

		Alistair's (A) Choices	
		Increase advertising budget	***Leave advertising budget as is***
Baine's (B) Choices	***Increase advertising budget***	A: \$30,000 profit B: \$30,000 profit	A: \$10,000 profit B: \$50,000 profit
	Leave advertising budget as is	A: \$50,000 profit B: \$10,000 profit	A: \$40,000 profit B: \$40,000 profit

Alistair Luggage and Baine Baggage are the only firms selling luggage in the upscale town of Montecito. Each firm must decide on whether to increase its advertising spending to compete for customers. If one firm increases its advertising budget but the other does not, then the firm with the higher advertising budget will increase its profit. Table 13–1 shows the payoff matrix for this advertising game.

10) ***Refer to Table 13–1.*** Does Alistair have a dominant strategy and if so, what is it? 10) ________
A) No, there is no dominant strategy.
B) Yes, Alistair should keep its advertising budget as is.
C) Yes, Alistair should increase its advertising budget.
D) There are two dominant strategies: if Baine increases its advertising budget, then Alistair's best bet is to keep its budget the same but if Baine does not increase its spending then Alistair should raise its advertising budget

11) ***Refer to Table 13–1.*** Does Baine have a dominant strategy and if so, what is it? 11) ________
A) There are two dominant strategies: if Alistair increases its advertising budget, then Baine's best bet is to keep its budget the same but if Alistair does not increase its spending then Baine should raise its advertising budget
B) Yes, Baine should keep its advertising budget as is.
C) Yes, Baine should increase its advertising budget.
D) No, there is no dominant strategy.

12) ***Refer to Table 13–1.*** What is the Nash equilibrium in this game? 12) ________
A) There is no Nash equilibrium.
B) Baine increases its advertising budget, but Alistair does not.
C) Both Alistair and Baine increase their advertising budgets.
D) Alistair increases its advertising budget, but Baine does not.

13) ***Refer to Table 13–1.*** If Alistair assumes that Baine would increase its advertising budget, what should it do? 13) ________
A) Alistair should also increase its advertising spending.
B) Alistair should reduce its advertising spending.
C) Alistair should keep its own budget the same and allow Baine to incur the higher cost.
D) Being a duopolist, Alistair is not affected by Baine's choices because it has a secure 50 percent market share.

14) ***Refer to Table 13-1.*** How are the firms in this advertising game caught in a prisoner's dilemma? 14) _______

A) Since each firm is uncertain about the other's behavior, each will adopt a wait-and-see attitude which results in no increase in market share and no new customers.

B) They would be more profitable if they refrained from advertising but each fears that if it does not advertise, it will lose customers.

C) They are not in a prisoner's dilemma because there is one clear strategy for each.

D) Only the first mover is caught in a prisoner's dilemma because the second has a chance to observe and respond.

15) A characteristic found only in oligopolies is 15) _______

A) products that are slightly different.

B) independence of firms.

C) interdependence of firms.

D) break even level of profits.

1) C
2) A
3) D
4) D
5) B
6) A
7) B
8) D
9) C
10) C
11) C
12) C
13) A
14) B
15) C