

AP[®] MICROECONOMICS
2007 SCORING GUIDELINES (Form B)

Question 2

6 points (1 + 1 + 1 + 2 + 1)

(a) 1 point:

- One point is earned for identifying the market as an oligopoly because there is mutual interdependence—the behavior of each firm affects the other.

(b) 1 point:

One point is earned for stating that an evening departure will be best for Airtouch.

(c) 1 point:

One point is earned for stating that Winward's dominant strategy is a morning departure.

(d) 2 points:

One point is earned for stating that choosing an evening departure is not a dominant strategy for Airtouch.

One point is earned for correctly reasoning that Airtouch does not have a dominant strategy because its best payoff depends on Winward's choice (OR, more specifically, if Winward chooses a morning departure, Airtouch is best off choosing a morning departure).

(e) 1 point:

One point is earned for identifying \$700.

(a) They exist in an ~~oligo~~ oligopolistic market. Because the number of suppliers in the market is small, and there is interdependence between the two companies regarding their profits.

(b) Airtouch shall choose the evening departure since it provides a higher pay-off ($\$100 > \700) compared to the alternative.

(c). Since the morning departure always provides a higher pay-off for ~~A~~ Windward [$(\$700 > \$600)$, $(\$750 > \$500)$]. Windward's dominant strategy is to choose morning no matter what Airtouch chooses.

(d) No. When windward chooses morning, airtouch will be better off choosing morning departure. When windward chooses evening, Airtouch will be better off choosing evening departure. Since these two moves do not concur, there is no dominant strategy for airtouch.

(e). Since Airtouch will be able to deduce that windward is always going to choose morning, Airtouch will choose morning to get the best pay-off under that condition. In this case, windward will be earning $\$700$ as daily profit.

(a) oligopoly. In an oligopoly, firms are interdependent. Their actions ~~depend~~ are dependent of the actions of other firms.

(b) If windward chooses an evening departure, ~~Airtouch~~ will ~~choose the~~ it will be better for ~~Airtouch~~ to choose the evening departure, because it would make more profits ~~\$800~~, ~~rather than~~ rather, ~~than \$600~~ (\$900), rather than the \$700 it would receive if it ^{choose} choose the morning flight)

(c) There is no dominant strategy for windward.

(d) No. ~~Airtouch~~ Airtouch doesn't have a dominant strategy. If they choose the morning flight, their profits would be \$1,000 or \$700. ~~If~~ If they choose the evening flight, their profits would be \$750, or \$900.

(e) If both firms don't cooperate, windward's profit would be \$700. Airtouch would choose the morning flight ~~to it~~ in hopes of achieving \$1000 profit, and windward would also choose the morning flight, in hopes of achieving the \$950 profit.

2

Write in the box the number of the question you are answering on this page as it is designated in the exam.

2C

(a) ~~oligopoly~~ These firms operate in oligopoly market.

Because there are few companies in this market, each of their decisions influences each other greatly.

(b) Evening departure is better because Airtouch can get ~~900~~ 200\$ more when they chose ^{an} evening departure.

(c) As for Windward, they have to avoid to choose morning departure because the opportunity cost is quite high. So there's nothing left but to choose evening departure.

(d) Yes, because choosing an evening departure causes less opportunity cost.

(e) 800\$

AP[®] MICROECONOMICS
2007 SCORING COMMENTARY (Form B)

Question 2

Sample: 2A

Score: 6

The student earned all points in this question.

Sample: 2B

Score: 4

The student lost 1 point in part (c) because the answer incorrectly states that Winward has no dominant strategy. The student lost 1 point in part (d) for failing to explain that the absence of a dominant strategy for Airtouch comes from the fact that Airtouch's best choice depends on the choice made by Winward.

Sample: 2C

Score: 2

The student earned 2 points in parts (a) and (b). Part (c) incorrectly states that Winward should "avoid . . . [a] morning departure." Part (d) incorrectly states that evening departures are a dominant strategy for Airtouch. Part (e) incorrectly states that Winward's daily profit will be \$800 rather than \$700.