IIT MADRAS
DEPARTMENT OF HUMANITIES AND SOCIAL SCIENCES
Course: HS3002 Principles of Economics Quiz - 2 **SET - B**
Maximum score: 10 **Time:** 40 minutes **Date:** 24/06/2022

Reg no: ____________________________ **Degree/Branch:** _______________________________________

Instructions

Answer ALL questions. Each question carries 0.5 marks. Enter the correct answer in the table below. Enter a legible answer with a **PEN**. No cuts and scratches will be accepted in the answer box, even if the answer is correct. Only the answers entered in box will be considered for evaluation. Use the empty space for any rough work. Return the question paper to your instructor.

Q No	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	Score
Ans																					

1. The market structure in which there is interdependence among firms is

a. monopolistic competition
b. oligopoly
c. perfect competition
d. monopoly

2. In a market of large number of identical sellers, if new firms are looking to exit the market in the short run, what will be the relationship among price (P), marginal cost (MC) and average cost (AC)?

a. P > MC; P = AC
b. P > MC; P > AC
c. P = MC; P > AC
d. P = MC; P < AC

Firms leave the market because of loss.
The loss occurs when (P-AC) is negative.
Negative (P-AC) occurs when price is lower than AC

Use the information given below to answer questions 3 and 4. The market price of a competitive firm is P = Rs.12. The total cost of a firm is given by the following equation as $TC = 70 + 0.4Q + 0.05Q^2$. Given the information, answer ONLY questions 3 and 4.

3. The profit maximizing quantity for the competitive firm is..

a. 98 b. 108 c. 116 d. 122

4. The revenue of the competitive firm would be..

a. 1932 b. 602.80 c. 1392 d. 622

5. Which of the following circumstances in an industry will result in a Nash equilibrium?

a. All firms have a dominant strategy and each firm chooses its dominant strategy.
b. All firms have a dominant strategy, but only some choose to follow it.
c. All firms have a dominant strategy, and none choose it.
d. None of the above is correct.

6. Firm A and Firm B have stopped the production of books. While Firm A pays the rent on the printing equipment, Firm B does not pay anything. Firm A and Firm B have….

a. Firm A has exited the market and Firm B has shut down the firm
b. Firm A has shut down the firm and Firm B has exited the market
c. Firm A and Firm B have shut down the firms
d. Firm A and Firm B have exited the market

A is paying the fixed cost
B is not paying anything

7. Competitive firms stay in business even in zero profit because of…

a. positive economic profits
b. positive economic and accounting profits
c. positive accounting profits
d. zero economic profits

8. Under perfect price discrimination, consumer surplus

a. is less than zero
b. is greater than zero
c. equals zero
d. is maximized

Refer to Figure 9 from Monopoly (9^{th} Edition)

9. In a market of large number of differentiated sellers, if new firms enter the market in the short run, what will happen to a firm's demand curve?

a. Demand curve shifts to the right
b. Demand curve shifts to the left
c. Nothing happens to the demand curve
d. Demand curve moves downwards

As firms enter, variety for consumers increases. They consume more of the new varieties This decreases the demand for each firm's good

10. Firm A produces 10 units of output at $10 total cost of production. If firm A expands its output to 20 units of output, the cost of production increases to $16. Firm A is…

a. a natural monopoly
b. a price discriminating monopoly
c. about to leave the market
d. a public owned monopoly

Decreasing average costs

11. The difference between the socially efficient quantity of output and monopolistically competitive quantity is called..

a. markup
b. excess capacity
c. signalling
d. wedge

Refer to Figure 4 from Monopolistic Competition (9^{th} Edition)

12. Because of entry of new firms and __________, existing firms lose customers and profits when faced with a new competitor.

a. positive surplus externality
a. product variety externality
b. business stealing externality
c. price markup externality

Refer to section 16.2d from Monopolistic Competition

Use the information given below to answer questions 13 and 14. The price equation of a monopolistically competitive firm is P = 100-Q. The total cost of a firm is given by the following equation as TC = $4Q^2$. Given the information, answer ONLY questions 13 and 14.

13. The profit maximizing price and quantity in the short run are..

a. 90 and 10 b. 88 and 12 c. 92 and 8 d. 89 and 11

14. The equilibrium quantity in the long run is..

a. 30 b. 20 c. 40 d. 36

15. Why can't two firms in a Prisoners' Dilemma enforce a better outcome that has higher payoffs?

a. Under an outcome with higher payoffs, the outcome is not a Nash equilibrium and each firm has an incentive to change their actions
b. Barriers to entry
c. Barriers to exit
d. The Nash equilibrium in a Prisoners' Dilemma has the highest possible payoffs for both firms.

16. Firm A sells commodity X to Firm B for Rs. 1299/- per unit with a clause that B shall not sell X to anyone at a price lesser than Rs 1299. Firm A is enforcing……… on B.

a. price discrimination
b. predatory pricing policy
c. resale price maintenance

A firm decides the minimum price at which the commodity is sold.

d. anti-trust tying

17. For a profit-maximizing monopoly that charges a single price, what is the relationship between price P, marginal revenue MR, and marginal cost MC?

a. P = MR; MR = MC MR and MC cut at a lower point to the price. Monopoly price is higher.
a. P > MR; MR = MC
b. P = MR; MR > MC
c. P > MR; MR > MC

18. For which of the following market structures is it assumed that there are barriers to entry?

a. Perfect competition
b. Monopolistic competition
c. Monopoly
d. b and c

19. Your economics professor has decided that your class will not be graded on a curve but on an absolute scale. Therefore, it is possible for every student in the class to get an "S." Your grade will not depend in any way on your classmates' performance. Based on this information, you decide that you should study economics three hours each day, regardless of what your classmates do. In the language of game theory, your decision to study three hours each day is:

a. a dominant strategy
b. a Nash equilibrium
c. an efficient solution
d. a Prisoner's dilemma

20. In the duopoly model, each firm assumes that

a. rivals will match price cuts but will not match price increases.
b. rivals will match all reasonable price changes.
c. the price of its rival is fixed.
d. the output level of its rival is fixed

An oligopolistic firm has control only over its quantity. The market/ production decision of each firm is also based on the decision of the other firm as increasing output is the way to capture larger share of the market.