Chapter 16 (Multiple Choice)—Oligopoly

MULTIPLE CHOICE

1. In markets characterized by oligopoly,
   a. the oligopolists are best off cooperating and behaving like a monopolist.
   b. collusive agreements will always prevail.
   c. collective profits are always lower with cartel arrangements than they are without cartel arrangements.
   d. pursuit of self-interest by profit-maximizing firms always maximizes collective profits in the market.

   ANS: A DIF: Average REF: 352

2. One characteristic of an oligopoly market structure is:
   a. firms in the industry are typically characterized by very diverse product lines.
   b. firms in the industry have some degree of market power.
   c. products typically sell at a price that reflects their marginal cost of production.
   d. the actions of one seller have no impact on the profitability of other sellers.

   ANS: B DIF: Average REF: 352

3. One key difference between an oligopoly market and a competitive market is that oligopolistic firms
   a. are price takers while competitive firms are not.
   b. are interdependent while competitive firms are not.
   c. sell completely unrelated products while competitive firms do not.
   d. sell their product at a price equal to marginal cost while competitive firms do not.

   ANS: B DIF: Average REF: 352

4. Crude oil is supplied to the world market primarily by a few Middle Eastern countries. Such a market is an example of a(n)
   (i) imperfectly competitive market.
   (ii) monopoly market.
   (iii) oligopoly market.

   a. (i) and (ii)
   b. (ii) and (iii)
   c. (i) and (iii)
   d. (iii) only

   ANS: C DIF: Average REF: 352

5. In which of the following markets is economic profit driven to zero in the long run?
   a. oligopoly
   b. monopoly
   c. perfect competition
   d. All of the above are correct.

   ANS: C DIF: Average REF: 352

6. Because each oligopolist cares about its own profit rather than the collective profit of all the oligopolists together,
   a. they are unable to maintain the same degree of monopoly power enjoyed by a monopolist.

b. each firm's profit always ends up being zero.
c. society is worse off as a result.
d. All of the above are correct.

ANS: A DIF: Average REF: 354

The information in the table below depicts the total demand for premium channel digital cable TV subscriptions in a small urban market. Assume that each digital cable TV operator pays a fixed cost of $100,000 (per year) to provide premium digital channels in the market area and that the marginal cost of providing the premium channel service to a household is zero.

Table 16-1

Quantity	Price (per year)
0	$120
3,000	$100
6,000	$ 80
9,000	$ 60
12,000	$ 40
15,000	$ 20
18,000	$ 0

7. **Refer to Table 16-1**. If there is only one digital cable TV company in this market, what price would it charge for a premium digital channel subscription to maximize its profit?
a. $40
b. $60
c. $80
d. $100

ANS: B DIF: Average REF: 355

8. **Refer to Table 16-1**. Assume that there are two digital cable TV companies operating in this market. If they are able to "collude" on price and quantity of subscriptions to sell, what price (P) will they charge, and how many subscriptions (Q) will they collectively sell?
a. P = $40, Q = 12,000
b. P = $60, Q = 9,000
c. P = $80, Q = 6,000
d. P = $100, Q = 3,000

ANS: B DIF: Average REF: 355

9. **Refer to Table 16-1**. Assume that there are two profit-maximizing digital cable TV companies operating in this market. Further assume that they are able to "collude" on price and quantity of premium digital channel subscriptions to sell. As part of their collusive agreement they decide to take an equal share of the market. How much profit will each company make?
a. $170,000
b. $40,000
c. $480,000
d. $540,000

ANS: A DIF: Average REF: 355

10. **Refer to Table 16-1**. Assume that there are two profit-maximizing digital cable TV companies operating in this market. Further assume that they are not able to "collude" on price and quantity of premium digital channel subscriptions to sell. How many premium digital channel cable TV subscriptions will be collectively sold (by both firms) when this market reaches a Nash equilibrium?

a. 3,000
b. 6,000
c. 9,000
d. 12,000

ANS: D DIF: Average REF: 355

11. **Refer to Table 16-1**. Assume that there are two profit-maximizing digital cable TV companies operating in this market. Further assume that they are not able to "collude" on price and quantity of premium digital channel subscriptions to sell. What price will premium digital channel cable TV subscriptions be sold at when this market reaches a Nash equilibrium?
a. $40
b. $60
c. $80
d. $100

ANS: A DIF: Average REF: 355

12. **Refer to Table 16-1**. Assume that there are two profit-maximizing digital cable TV companies operating in this market. Further assume that they are not able to "collude" on price and quantity of premium digital channel subscriptions to sell. How much profit will each firm earn when this market reaches a Nash equilibrium?
a. $0
b. $140,000
c. $170,000
d. $220,000

ANS: B DIF: Easy REF: 355

13. Oligopolists are always best off, in terms of their profits,
a. operating in a Nash equilibrium.
b. producing a total quantity of output that falls short of the Nash-equilibrium total quantity.
c. producing a total quantity of output that exceeds the Nash-equilibrium total quantity.
d. charging a price that falls short of the Nash-equilibrium price.

ANS: B DIF: Average REF: 356

14. In order to be successful, a cartel must
a. find a way to encourage its members to produce more than they would otherwise produce.
b. agree on the total level of production for the cartel, but they need not agree on the amount produced by each member.
c. agree on the total level of production and on the amount produced by each member.
d. agree on the prices charged by each member, but they need not agree on amounts produced.

ANS: C DIF: Average REF: 356

15. The concept of a Nash equilibrium, when applied to an oligopoly situation,
a. illustrates the tension between self-interest and cooperation.
b. relies on the logic of firms pursuing their own self-interests.
c. relies on the notion that each firm chooses its best strategy, given the strategies that other firms have chosen.
d. All of the above are correct.

ANS: D DIF: Average REF: 356

16. The concept of a Nash equilibrium, when applied to an oligopoly situation, relies on the notion that Firm A in an oligopoly chooses its own best strategy
    a. given the strategies that other firms have chosen.
    b. with the knowledge that other firms are likely to choose their strategies in response to Firm A's choice of a strategy.
    c. based on the objective of maximizing the collective profits of all firms in the industry.
    d. All of the above are correct.

    ANS: A DIF: Challenging REF: 356

17. Which of these situations produces the largest profits for oligpolists?
    a. They reach a Nash equilibrium.
    b. They reach the monopoly outcome.
    c. They reach the competitive outcome.
    d. They produce a quantity of output that lies between the competitive outcome and the monopoly outcome.

    ANS: B DIF: Challenging REF: 356

18. Equilibrium prices in markets characterized by oligopoly are
    a. higher than in monopoly markets and higher than in perfectly competitive markets.
    b. higher than in monopoly markets and lower than in perfectly competitive markets.
    c. lower than in monopoly markets and higher than in perfectly competitive markets.
    d. lower than in monopoly markets and lower than in perfectly competitive markets.

    ANS: C DIF: Average REF: 355

19. For cartels, once the number of firms (members of the cartel) increases,
    a. the monopoly outcome becomes less likely.
    b. the magnitude of the price effect decreases.
    c. the less concerned each seller is about its own impact on the market price.
    d. All of the above are correct.

    ANS: D DIF: Average REF: 357

20. If, to begin, a market is perfectly competitive, and then it is taken over by three or four firms, we would expect, as a result,
    a. an increase in market output and an increase in the price of the product.
    b. an increase in market output and an decrease in the price of the product.
    c. a decrease in market output and an increase in the price of the product.
    d. a decrease in market output and a decrease in the price of the product.

    ANS: C DIF: Average REF: 357

21. In what type of market do the actions of any one seller have a significant impact on the profits of all other sellers?
    a. a monopoly
    b. perfect competition
    c. monopolistic competition
    d. an oligopoly

    ANS: D DIF: Easy REF: 357

22. If duopolists individually pursue their own self-interest when deciding how much to produce, the amount they will produce collectively will
    a. be less than the monopoly quantity.

b. be equal to the monopoly quantity.
c. be greater than the monopoly quantity.
d. any of the above are possible.

ANS: C DIF: Average REF: 357

23. If duopolists individually pursue their own self-interest when deciding how much to produce, the price they are able to charge for their product will be
a. less than the monopoly price.
b. equal to the perfectly competitive market price.
c. greater than the monopoly price.
d. possibly less than or greater than the monopoly price.

ANS: A DIF: Average REF: 357

24. To increase their individual profits, members of a cartel have an incentive to
a. decrease price.
b. increase production.
c. cheat.
d. All of the above are correct.

ANS: D DIF: Average REF: 357

25. If an oligopolist is part of a cartel that is collectively producing at the monopoly level of output, then that oligopolist has the incentive to lower production with the aim of
a. lowering prices.
b. increasing profits for the group of firms as a whole.
c. increasing profits for itself, regardless of the impact on profits for the group of firms as a whole.
d. None of the above are correct.

ANS: D DIF: Average REF: 357

26. As the number of firms in an oligopoly increases,
a. each seller becomes more concerned about its impact on the market price.
b. the output effect decreases.
c. the quantity of output becomes closer to the socially efficient quantity.
d. All of the above are correct.

ANS: C DIF: Challenging REF: 357

27. As the number of firms in an oligopoly grows very large, the quantity of output produced
(i) decreases.
(ii) increases.
(iii) approaches the socially optimal level.

a. (i) and (ii)
b. (ii) and (iii)
c. (i) and (iii)
d. (ii) only

ANS: B DIF: Average REF: 357

28. Profit-maximizing production decisions will drive price to equal marginal cost when
a. many sellers sell products that are slightly differentiated.
b. many sellers sell products that are identical.

c. there is only one seller.
d. there are only a few sellers.

ANS: B DIF: Average REF: 357

29. A prisoners' dilemma game demonstrates how cooperative action is often not rational even though
a. prisoners are not capable of individual choice.
b. cooperation would make everyone worse off.
c. cooperation would make everyone better off.
d. All of the above can be demonstrated with a prisoners' dilemma game.

ANS: C DIF: Average REF: 359

30. In a game, a dominant strategy is, by definition,
a. the best strategy for a player to follow only if other players are cooperative.
b. the best strategy for a player to follow, regardless of the strategies followed by other players.
c. a strategy that always leads to a Nash equilibrium.
d. a strategy that leads to one player's interests dominating the interests of the other players.

ANS: B DIF: Average REF: 360

Each year the United States considers renewal of Most Favored Nation (MFN) trading status with China. Historically, legislators have made threats of not renewing MFN status because of human rights abuses in China. The non renewal of MFN trading status is likely to involve some retaliatory measures by China. The Game below reflects the potential economic gains associated with a two-outcome game in which China may impose trade sanctions against U.S. firms and the United States may not renew MFN status with China. The following table contains the dollar value of all trade flow benefits to the United States and China under two trade-relationship scenarios.

Table 16-4

		China	
		Impose trade sanctions against U.S. firms	Do not impose trade sanctions against U.S. firms
United States	Don't renew MFN status with China	U.S. trade value = $65 b China trade value = $75 b	U.S. trade value = $140 b China trade value = $5 b
	Renew MFN status with China	U.S. trade value = $35 b China trade value = $285 b	U.S. trade value = $130 b China trade value = $275 b

31. **Refer to Table 16-4**. Pursuing its own best interests, China will impose trade sanctions against U.S. firms
a. only if the U.S. does not renew MFN status with China.
b. only if the U.S. renews MFN status with China.
c. regardless of whether the U.S. renews MFN status with China.
d. None of the above are correct; in pursuing its own best interests, Chine will in no case impose trade sanctions against U.S. firms.

ANS: C DIF: Average REF: 359

32. **Refer to Table 16-4**. Pursuing its own best interests, the U.S. will renew MFN status with China
a. only if China does not impose trade sanctions against U.S. firms.
b. only if China imposes trade sanctions against U.S. firms.
c. regardless of whether China imposes trade sanctions against U.S. firms.
d. None of the above are correct; in pursuing its own best interests, the United States will in no case renew MFN status with China.

ANS: D DIF: Average REF: 359

33. **Refer to Table 16-4**. This particular game
    a. features a dominant strategy for Firm A.
    b. features a dominant strategy for Firm B.
    c. is a version of the prisoners' dilemma game.
    d. All of the above are correct.

    ANS: D DIF: Average REF: 359

34. **Refer to Table 16-4**. If both countries follow a dominant strategy, the value of trade flow benefits for China will be
    a. $5 b.
    b. $75 b.
    c. $275 b.
    d. $285 b.

    ANS: B DIF: Average REF: 359

35. **Refer to Table 16-4**. If both countries follow a dominant strategy, the value of trade flow benefits for the United States will be
    a. $35 b.
    b. $65 b.
    c. $130 b.
    d. $140 b.

    ANS: B DIF: Average REF: 359

36. **Refer to Table 16-4**. When this game reaches a Nash equilibrium, the value of trade flow benefits will be
    a. United States $35 b and China $285 b.
    b. United States $65 b and China $75 b.
    c. United States $140 b and China $5 b.
    d. United States $130 b and China $275 b.

    ANS: B DIF: Average REF: 359

37. **Refer to Table 16-4**. If trade negotiators are able to communicate effectively about the consequences of various trade policies (i.e., enter into an agreement about the policy they should adopt), then we would expect the game outcome to be
    a. United States $35 b and China $285 b.
    b. United States $65 b and China $75 b.
    c. United States $140 b and China $5 b.
    d. United States $130 b and China $275 b.

    ANS: D DIF: Average REF: 359

38. **Refer to Table 16-4**. Assume that trade negotiators meet to discuss trade policy between the United States and China. If neither party to the negotiation is able to trust the other party, then
    a. each should assume that the other will choose a strategy that optimizes total value of the trade relationship.
    b. the Nash equilibrium will provide the largest possible gains to each party.
    c. Chinese negotiators should assume that United States negotiators will implement a policy that is in the mutual best interest of both countries.
    d. each should follow their dominant strategy.

ANS: D DIF: Average REF: 359

39. **Refer to Table 16-4**. Trade negotiations are repeated each year. In a repeated game scenario it is likely that
    a. Chinese negotiators will assume that United States negotiators will never retaliate for a noncooperative trade policy.
    b. both parties will assume that the other will choose a strategy that optimizes the total value of the trade relationship.
    c. the Nash equilibrium will provide the largest possible gains to each party.
    d. each will follow a dominant strategy based entirely on self-interest.

    ANS: B DIF: Challenging REF: 359

40. Which of the following explains why oligopolies often fail to maintain cooperation?
    (i) the story of the prisoners' dilemma
    (ii) game theory
    (iii) the fact that self-interest is not always consistent with collective group interest

    a. (i) and (ii)
    b. (ii) and (iii)
    c. (i) and (iii)
    d. All of the above are correct.

    ANS: D DIF: Average REF: 359

41. In a two-person repeated game, a tit-for-tat strategy starts with
    a. cooperation and then each player mimics the other player's last move.
    b. cooperation and then each player is unresponsive to the strategic moves of the other player.
    c. noncooperation and then each player pursues his or her own self-interest.
    d. noncooperation and then each player cooperates when the other player demonstrates a desire for the cooperative solution.

    ANS: A DIF: Challenging REF: 366

42. A tit-for-tat strategy starts out
    a. conciliatory and then encourages an optimal social outcome among the other players.
    b. unfriendly and then encourages friendly strategies among players.
    c. friendly, then penalizes unfriendly players, and forgives them if warranted.
    d. aggressive, then compensates losing players, and eventually forgives unfriendly players.

    ANS: C DIF: Challenging REF: 366

43. Which of the following statements are true of the prisoners' dilemma?
    (i) Rational self-interest leads neither party to confess.
    (ii) Cooperation between the prisoners is difficult to maintain.
    (iii) Cooperation between the prisoners is individually rational.

    a. (ii) only
    b. (ii) and (iii)
    c. (i) and (iii)
    d. All of the above are correct.

    ANS: A DIF: Average REF: 359

Scenario 16-1
Assume that the countries of Irun and Urun are the only two producers of crude oil. Further assume that both countries have entered into an agreement to maintain certain production levels in order to maximize profits. In the world market for oil, the demand curve is downward sloping.

44. **Refer to Scenario 16-1**. The fact that both countries have colluded to earn higher profit shows their desire to keep production levels
    a. higher than the competitive market level of output.
    b. lower than the Nash equilibrium level of output.
    c. equal to the Nash equilibrium level of output
    d. higher than the Nash equilibrium level of output.

    ANS: B DIF: Average REF: 356

45. **Refer to Scenario 16-1**. As long as production levels are less than the Nash equilibrium levels, both Irun and Urun have the individual incentive to
    a. hold production levels constant.
    b. decrease production.
    c. increase production.
    d. increase price.

    ANS: C DIF: Average REF: 356

46. **Refer to Scenario 16-1**. The agreed-upon production level between the two countries will invariably be
    a. lower than the Nash equilibrium level.
    b. equal to the Nash equilibrium level.
    c. equal to the duopoly market equilibrium level.
    d. higher than the duopoly market equilibrium level.

    ANS: A DIF: Average REF: 356

47. **Refer to Scenario 16-1**. If Irun fails to live up to the production agreement and overproduces, which of the following statements will be true of Urun's condition?
    a. Urun will invariably be worse off than before the agreement was broken.
    b. Urun will counter by decreasing its production in order to maintain price stability.
    c. Urun's profit will be maximized by holding its production constant.
    d. Urun will be hurt worse if it follows suit and increases production.

    ANS: A DIF: Average REF: 356

48. **Refer to Scenario 16-1**. In a nonrepetitive game, which of the following is the dominant strategy of Irun when production levels are in accordance with the collusive agreement?
    a. increase production only after Urun increases production
    b. decrease production only after Urun increases production
    c. unilaterally decrease production
    d. unilaterally increase production

    ANS: D DIF: Average REF: 356

49. Hot-dog vendors on the beach fail to cooperate with one another on the quantity of hot-dogs they should sell to earn monopoly profits. A consequence of their failure is that, relative to the outcome the vendors would like,
    (i) the quantity of hot dogs supplied is closer to the socially optimal level.
    (ii) the price of hot dogs is closer to marginal cost.

(iii) the hot-dog market at the beach is less competitive.

a. (i) and (ii)
b. (ii) and (iii)
c. (i) and (iii)
d. (iii) only

ANS: A DIF: Average REF: 359

Scenario 16-3
Consider two countries, Eudora and the Inhabii, that are engaged in an arms race. The question each country must face is whether to build new weapons or to disarm existing weapons. Each country prefers to have more arms than the other because a large arsenal gives it more influence in world affairs. But each country also prefers to live in a world safe from the other country's weapons. The following figure shows the possible outcomes for each decision combination.

50. **Refer to Scenario 16-3**. If Inhabii chooses to arm, the country of Eudora will
a. disarm in order to prevent the loss of influence in world affairs.
b. disarm in order to promote world peace.
c. arm in order to promote world peace.
d. arm in order to prevent the loss of influence in world affairs.

ANS: D DIF: Average REF: 362

51. **Refer to Scenario 16-3**. Which of these statements is correct?
(i) Eudora is better off arming if Inhabii arms.
(ii) Eudora is better off arming if Inhabii disarms.
(iii) Arming is Eudora's dominant strategy.

a. (i) and (ii)
b. (ii) and (iii)
c. (i) and (iii)
d. All of the above are correct.

ANS: D DIF: Average REF: 362

52. **Refer to Scenario 16-3**. Arming is a dominant strategy for
a. Eudora, but not for Inhabii.
b. Inhabii, but not for Eudora.
c. both Eudora and Inhabii.
d. neither Eudora nor Inhabii.

ANS: C DIF: Average REF: 362

53. **Refer to Scenario 16-3**. If both countries get together and agree on a certain level of arms, what will happen to social welfare assuming that both countries keep their end of the bargain?
a. Social welfare will remain unchanged due to the lack of dominant strategies.
b. Social welfare will remain unchanged due to the presence of dominant strategies.
c. Social welfare will decrease.
d. Social welfare will increase.

ANS: D DIF: Average REF: 362

54. **Refer to Scenario 16-3**. In reality these two countries may have a hard time keeping arms levels at the socially optimal level due to which of the following reasons?

(i) Even though Eudora has no incentive to cheat on the agreement, Inhabii has an incentive to cheat on the agreement.
(ii) They both want to be safe.
(iii) They both want to increase their world power.

a. (i) and (ii)
b. (ii) and (iii)
c. (i) and (iii)
d. All of the above are correct.

ANS: B DIF: Average REF: 362

55. Two suspected drug dealers are stopped by the highway patrol for speeding. The officer searches the car and finds a small bag of marijuana, and arrests the two. During the interrogation, each is separately offered the following: "If you confess to dealing drugs and testify against your partner, you will be given immunity and released while your partner will get 10 years in prison. If you both confess, you will each get 5 years." If neither confesses, there is no evidence of drug dealing, and the most they could get is one year each for possession of marijuana. If each suspected drug dealer follows a dominant strategy, what should he/she do?
a. confess regardless of the partner's decision
b. confess only if the partner confesses
c. refrain from confessing regardless of the partner's decision
d. refrain from confessing only if the partner refrains from confessing

ANS: A DIF: Average REF: 359

56. Martha and Oleg are competitors in a local market and each is trying to decide if it is worthwhile to advertise. If both of them advertise, each will earn a profit of $5,000. If neither of them advertise, each will earn a profit of $10,000. If one advertises and the other doesn't, then the one who advertises will earn a profit of $15,000 and the other will earn $7,000. To make the most money, Martha
a. should advertise, and she will earn $5,000.
b. should advertise, and she will earn $15,000.
c. should not advertise, and she will earn $10,000.
d. has no dominant strategy.

ANS: D DIF: Challenging REF: 363

57. Barb and Sue are competitors in a local market. Each is trying to decide if it is better to advertise on TV, on radio, or not at all. If they both advertise on TV, each will earn a profit of $5,000. If they both advertise on radio, each will earn a profit of $7,000. If neither advertises at all, each will earn a profit of $10,000. If one advertises on TV and other advertises on radio, then the one advertising on TV will earn $8,000 and the other will earn $3,000. If one advertises on TV and the other does not advertise, then the one advertising on TV will earn $15,000 and the other will earn $2,000. If one advertises on radio and the other does not advertise, then the one advertising on radio will earn $12,000 and the other will earn $4,000. If both follow their dominant strategy, then Barb will
a. advertise on TV and earn $5,000.
b. advertise on radio and earn $7,000.
c. advertise on TV and earn $15,000.
d. not advertise and earn $10,000.

ANS: A DIF: Challenging REF: 363

58. Assume that Apple Computer has entered into an enforceable resale price maintenance agreement with Computer Super Stores Inc. (CSS Inc.) and Wal-Mart. Which of the following will always be true?
a. The wholesale price of Apple computers will be different for CSS Inc. than it is for Wal-

Mart.
b. Wal-Mart will benefit from customers who go to CSS Inc. for information about different computers.
c. CSS Inc. will sell Apple computers at a lower price than Wal-Mart.
d. Wal-Mart and CSS Inc. will always sell Apple Computers for exactly the same price.

ANS: D DIF: Average REF: 370

Scenario 16-5
Assume that a local bank sells two services, checking accounts and ATM card services. Mr. Donethat is willing to pay $8 a month for the bank to service his checking account and $2 a month for unlimited use of his ATM card. Ms. Beenthere is willing to pay only $5 for a checking account, but is willing to pay $9 for unlimited use of her ATM card. To keep this example simple, assume that the bank can provide each of these services at zero marginal cost.

59. **Refer to Scenario 16-5**. If the bank is unable to use tying, what is the profit-maximizing price to charge for a checking account?
a. $13
b. $9
c. $8
d. $5

ANS: D DIF: Average REF: 372

60. **Refer to Scenario 16-5**. If the bank is unable to use tying, what is the profit-maximizing price to charge for unlimited use of an ATM card?
a. $14
b. $11
c. $9
d. $2

ANS: C DIF: Average REF: 372

61. **Refer to Scenario 16-5**. If the bank is able to use tying to price checking account and ATM services, what is the profit-maximizing price to charge for the "tied" good?
a. $14
b. $10
c. $9
d. $8

ANS: B DIF: Average REF: 372

62. **Refer to Scenario 16-5**. How much additional profit does the bank make when it switches to use of a tying strategy to price checking account and ATM service?
a. $14
b. $11
c. $7
d. $1

ANS: D DIF: Average REF: 372

63. If Levi Strauss & Co. were to require every store that carried their clothing to charge customers 20 percent more than the store's cost for each item of clothing, Levi Strauss & Co. would be practicing
a. resale price maintenance.
b. fixed retail pricing.

c. tying.
d. cost plus pricing.

ANS: A DIF: Easy REF: 370

64. The argument that consumers will not be willing to pay any more for two items sold as one than they would for the two items sold separately is used to justify the legality of which of the following?
a. resale price maintenance
b. tying
c. predatory pricing
d. free-riding

ANS: B DIF: Average REF: 372

65. As a legitimate means of discouraging the problem of free-riders, economists suggest the use of
a. tying.
b. resale price maintenance.
c. marginal cost pricing.
d. cost plus pricing.

ANS: B DIF: Average REF: 372