

Problem Set 6

ECON 306 Fall 2022

UNGRADED: For Final Exam Practice Only

Concepts and Critical Thinking

Please answer the following questions briefly (1-3 sentences). Use examples as necessary. Be sure to label graphs fully, if appropriate.

1. Compare and contrast the features of

- i. perfect competition
- ii. monopoly
- iii. oligopoly
- iv. monopolistic competition

Rank each of the above 4 market structures (from smallest/lowest to largest/highest) in terms of:

- i. the number of firms
- ii. long-run market price
- iii. equilibrium industry output
- iv. consumer surplus
- v. long-run economic profits
- vi. deadweight loss

2. Indicate based on the given information whether an industry is likely **perfectly competitive**, **monopolistically competitive**, an **oligopoly**, or a **monopoly**:
- Fairfax, Virginia has three movie theaters
 - Restaurants in the greater Piedmont area, with many different cuisines to choose from
 - All of Connecticut gets its electricity from Connecticut Light & Power company
 - Laptops, where you can choose from many different brands (Acer, Asus, Gateway, Toshiba, Sony, HP, Dell, IBM, Lenovo, etc) and each is slightly different
 - Wheat in the U.S., provided by many small farmers, with each farmer's wheat being identical to every other farmer's wheat
 - The music industry, where Universal, Sony, EMI, and Warner account for 87% of the market

3. Indicate which good is more likely to have a **higher markup** for firms with market power in these industries, and why:

- Alcohol or jewelry
- Prescription drugs or televisions
- Gym memberships or school supplies
- Doughnuts or bread
- Popcorn in a movie theater or popcorn from a street vendor

4. Describe the conditions required to make a market *contestable*. Describe and compare the Nash equilibrium of a contestable market with a pure monopoly, and with perfect competition.

5. Explain what a cartel is, and comment on their stability.