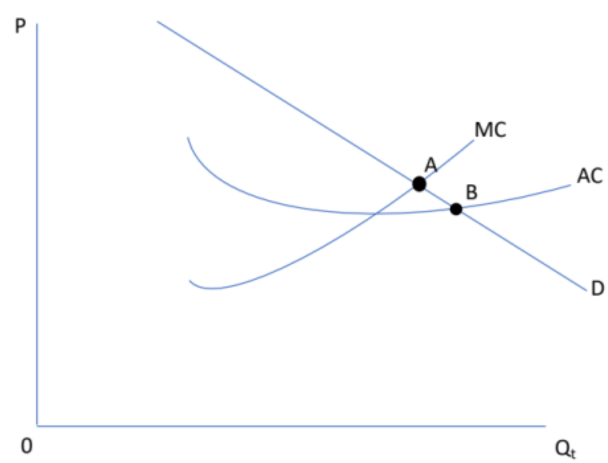
1 Practice Questions

1. (Exam 2 - 2019Q2) Antitrust authorities in several countries brought legal action against an international cartel that produced Cathode Ray Tubes ("CRTs"). CRTs are the prior generation of television screens and computer monitors before the introduction and adoption of High Definition Television ("HDTV"). In its day, the CRT cartel was considered to be effective in "fixing" the market price and output
   (a) According to the economic theory of cartels, what is the likely effect on the price and the market quantity of CRTs once the CRT cartel is up and running?
   (b) What is the likely effect of the CRT cartel upon the price of television sets that have CRT screens?
   (c) IAN CRT is the name of the one CRT producer that did not join the CRT cartel. What is the likely economic consequence of the cartel for this firm?
   (d) The economic theory of cartels reveals a temptation that exists for each member of a functioning cartel. Identify and explain what it is.
   (e) What is the likely effect of a CRT cartel upon the introduction of new screen technology (such as HDTV screens)?
   (f) Under U.S. antitrust law, is participating in a price-fixing cartel illegal, legal, or one cannot say because "it all depends"?

2. (Exam 2 - 2019Q5) Keeley is a Vice-President of Sales for a major consumer goods company and she tells her staff, "We are fortunate; there are very few substitutes for our product; demand is inelastic. Unlike firms that face a lot of competition, we have lots of discretion in setting our prices." Raed, a junior member of her staff responds, "But wouldn't we want to set our price in the elastic portion of the demand curve?" Use your knowledge of economic theory to clarify what is being said here.

3. (Exam 2 - 2022Q2) The business firm shown below makes buttons, an important product for consumers of blouses, shirts, and coats. It is the only button firm in Centralia, a planned economy whose Constitution states the all manufacturing firms are to be operated in the best interests of consumers.



   (a) Your supervisor asks you whether the button factory should operate at the price-quantity combination shown as point A. What do you tell your supervisor and why?

(b) Your supervisor asks, "But what about the price-quantity combination at point B?" What do you tell your supervisor, and why?

(c) Assume Centralia gets a new Constitution and this button factory no longer must operate in the best interests of consumers. Indeed, your supervisor now owns the button factory and wants to maximize the firm's profits. Your supervisor turns to you for advice and asks, "What price and output should I select to maximize profits (or minimize losses)"? What's the correct answer, and why?