AUBG, Fall 2015, Intro to Micro with P. Stankov, Practice qns on Oligopoly

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) The four largest firms account for approximately 90% of the cigarette sales. The cigarette industry would be best classified as a(n) 1) ________

A) perfectly competitive industry. B) monopoly.
C) oligopoly. D) monopolistically competitive industry.

2) The market structure in which the behavior of any given firm depends on the behavior of the other firms in the industry is 2) ________

A) monopolistic competition. B) perfect competition.
C) monopoly. D) oligopoly.

3) In oligopoly, firms 3) ________

A) are able to influence price only if the products produced by the oligopolists are differentiated.
B) are able to influence price only if the products produced by the oligopolist are standardized.
C) by virtue of their size are able to influence price regardless of whether or not the product is differentiated or standardized.
D) have no influence over price regardless of whether or not the product is differentiated or standardized.

4) The major distinguishing characteristic of oligopoly is that 4) ________

A) entry into the industry is easy.
B) firms can influence the price of their product.
C) firms are interdependent.
D) firms produce differentiated products.

5) Suppose an oligopolistic firm raises the price of its output. Demand for the firm's output will be relatively price ________ if the other dominant firms in the market ________. 5) ________

A) inelastic; also raise price B) unit elastic; do not raise price
C) elastic; do not raise price D) cannot be determined

Refer to the information provided in Figure 14.8 below to answer the questions that follow.

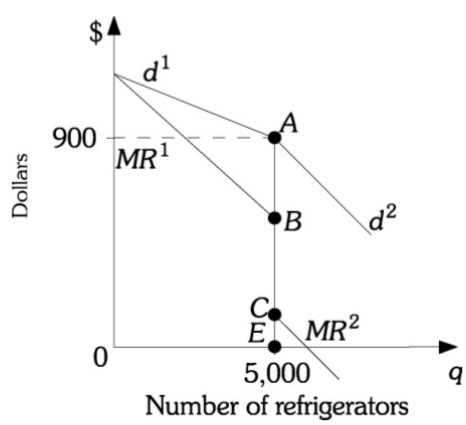

Figure 14.8

6) Refer to Figure 14.8. The model of oligopoly in this diagram is the 6) ________

A) Cournot model. B) kinked demand curve model.
C) price leadership model. D) colluding oligopoly.

7) Refer to Figure 14.8. Section $d1$ of the demand curve assumes that competing firms will 7) ________
A) not change their price in response to this firm's price increase.
B) decrease their price in response to this firm's price increase.
C) raise their price in response to this firm's price decrease.
D) raise their price in response to this firm's price increase.

Refer to the information provided in Table 14.1 below to answer the questions that follow

Table 14.1

		Raise Price	Don't Raise Price
A's Strategy	Raise Price	A's profit $3,000 B's profit $3,000	A's profit $10,000 B's profit $15,000
	Don't Raise	A's profit $15,000 B's profit $10,000	A's profit $5,000 B's profit $5,000

8) Refer to Table 14.1. Firm A's optimal strategy is 8) ________
A) dependent on what Firm B does.
B) to not raise the price of its product.
C) to raise the price of its product.
D) indeterminate from this information, as no information is provided on Firm A's risk preference.

Refer to the information provided in Table 14.2 below to answer the questions that follow

Table 14.2

		Advertise	Don't Advertise
A's Strategy	Advertise	A's profit $100 million B's profit $100 million	A's profit $200 million B's profit $50 million
	Don't Advertise	A's profit $50 million B's profit $200 million	A's profit $75 million B's profit $75 million

9) Refer to Table 14.2. Firm A's dominant strategy is 9) ________
A) to not advertise.
B) to advertise.
C) dependent on what Firm B does.
D) indeterminate from this information, as no information is provided on Firm A's risk preference.

10) In game theory, the "dominant strategy" is the strategy that: 10) ________
A) yields the highest valued outcome for each player.
B) results in the highest payoff to a player regardless of what the other player decides to do.
C) makes each player better off than they would have been if they cooperated with each other.
D) each player will select after a game has been played repeatedly.

11) In game theory, a Nash equilibrium is defined as: 11) ______

A) the set of strategies chosen when the players in a game can cooperate with each other.
B) the set of strategies that result in the maximum payoff to each player.
C) a set of strategies for which all players are choosing their best strategy, given the actions of the other players.
D) the dominant strategy of each player.

12) A firm could cheat on a cartel agreement by: 12) ______

A) cutting production.
B) raising its price above the agreed level.
C) selling less than its agreed quota.
D) lowering its price below the agreed level.

13) Cartels: 13) ______

A) are stable, since oligopolistic firms rarely change price.
B) are difficult to maintain because a firm can cheat by raising its price above the agreed price.
C) restrict industry output in order to raise price.
D) are relatively easy to establish because the cost function of each individual firm is irrelevant.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

14) Use the information in the following table, which summarizes the payoffs (i.e., profit) to two firms that must decide between an average-quality and a high quality product, to answer the questions that follow: 14) ______________

	Firm 2		
		Average Quality	High Quality
Firm 1	Average Quality	600, 600	400, 1100
	High Quality	1100, 400	900, 900

a. What is each player's dominant strategy? Explain your reasoning.

b. Referring to the table above, is this an example of a prisoner's dilemma game? Why or why not?

c. Is there a Nash equilibrium? If so, what is it?