

BUSN/6120-STUDY GUIDE

FINAL EXAM

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QUESTION:

Which of the following is true for perfect competition but not true for monopolistic competition and monopoly?

- A. $MC=MR$
- B. $P = MC$
- C. Positive long run profits
- D. $P = MC$ and positive long run profits

Baye - Chapter 11 #3

Learning Objective: 11-02 Formulate pricing strategies that permit firms to extract additional surplus from consumers-including price discrimination; two-part pricing; block pricing; and commodity bundling-and explain the conditions needed for each of these strategies to yield higher profits than standard pricing.

Topic: Basic Pricing Strategies

QUESTION:

A Broadway theater sells weekday show tickets at a lower price than for a weekend show. This is an example of:

- A. price discrimination.**
- B. peak-load pricing.**
- C. price discrimination or peak-load pricing.**
- D. None of the statements is correct.**

Baye - Chapter 11 #27

Learning Objective: Formulate pricing strategies that enhance profits for special cost and demand structures-such as peak-load pricing; cross-subsidies; and transfer pricing-and explain the conditions needed for each strategy to work.

Topic: Strategies that Yield Even Greater Profits

QUESTION:

Suppose two types of consumers buy suits. Consumers of type A will pay \$100 for a coat and \$50 for pants. Consumers of type B will pay \$75 for a coat and \$75 for pants. The firm selling suits faces no competition and has a marginal cost of zero. If the firm charges \$100 for a suit (which includes both pants and a coat), the firm will sell a suit to:

- A. type A consumers.
- B. type B consumers.
- C. type A consumers and type B consumers.
- D. None of the answers are correct.

Baye - Chapter 11 #55

Formulate pricing strategies that permit firms to extract additional surplus from consumers-including price discrimination; two-part pricing; block pricing; and commodity bundling-and explain the conditions needed for each of these strategies to yield higher profits than standard pricing.

QUESTION:

You are a hotel manager and you are considering four projects that yield different payoffs, depending upon whether there is an economic boom or a recession. The potential payoffs and corresponding payoffs are summarized in the following table. Which project has the greatest expected value?

Project	Boom (50%)	Recession (50%)
A	\$20	-\$10
B	-\$10	\$20
C	\$30	-\$30
D	\$50	\$50

Baye - Chapter 12 #8

Calculate the profit-maximizing output and price in an environment of uncertainty.

Topic: The Mean and the Variance

QUESTION:

Which of the following statements is NOT correct?

- A. Information plays an important role in the economy.**
- B. Asymmetric information may lead to the disappearance of a market.**
- C. It is always desirable to have more information than the person one is trading with.**
- D. Adverse selection will not occur if there is no asymmetric information.**

Baye - Chapter 12 #39

Explain why asymmetric information about "hidden actions" or "hidden characteristics" can lead to moral hazard and adverse selection; and identify strategies for mitigating these potential problems.

Topic: Uncertainty and the Market

QUESTION:

Risk-averse persons sometimes prefer to play some gambles even if they know that those gambles are not fair, i.e., on average people lose by playing them. One plausible explanation for this seemingly paradoxical phenomenon is that:

- A. The economic theory of uncertainty is not correct.**
- B. Gambling has entertaining effects which are not treated explicitly as part of the payoffs.**
- C. People's actions are not reasonable.**
- D. None of the statements is correct.**

Baye - Chapter 12 #29

Identify strategies to manage risk and uncertainty; including diversification and optimal search strategies.

Topic: Uncertainty and Consumer Behavior

QUESTION:

Penetration pricing is:

- A. a way to raise a rival's marginal cost.**
- B. a way to raise a rival's fixed cost.**
- C. a way to overcome an incumbent's first-mover advantage.**
- D. ineffective in markets with strong networks.**

Baye - Chapter 13 #8

Identify examples of networks and network externalities; and determine the number of connections possible in a star network with n users.

Topic: Penetration Pricing to Overcome Network Effects

QUESTION:

An example of vertical foreclosure is when a firm:

- A. temporarily prices below its marginal cost to close competitors out of the market.
- B. merges with a rival firm with the intention of eliminating the rival firm's product from the market.
- C. that controls an essential upstream input refuses to sell to other downstream firms that need the input.
- D. merges with a rival firm with the intention of eliminating the rival firm's product from the market and . that controls an essential upstream input refuses to sell to other downstream firms that need the input.

Baye - Chapter 13 #30

Show how a manager can profitably lessen competition by raising rivals costs.

Topic: Raising Rivals Costs to Lessen Competition

QUESTION:

Consider an incumbent that is a monopoly currently earning \$1 million annually. Given the declining costs of raw materials, the incumbent believes a new firm may enter the market. If successful, a new entrant would reduce the incumbent's profits to \$750,000 annually. To keep potential entrants out of the market, the incumbent lowers its price to the point where it is earning \$850,000 annually for the indefinite future. If the interest rate is 5 percent, does it make sense for the incumbent to limit price to prevent entry?

- A. No, since \$2 million > \$250,000.
- B. B. Yes, since \$2 million > \$250,000.
- C. C. No, since \$5 million > \$100,000.
- D. D. Yes, since \$250,000 > \$5 million.

Baye - Chapter 13 #38

Explain the economic basis for limit pricing; and identify the conditions under which a firm can profit from such a strategy.

Topic: Limit Pricing to Prevent Entry

QUESTION:

Under the merger guidelines written by the DOJ and FTC, a merger may not be challenged if:

- A. there is significant foreign competition.**
- B. the firms involved have monetary problems.**
- C. there is an emergence of new technology.**
- D. All of the statements associated with this question are correct.**

Baye - Chapter 14 #12

Explain why market power reduces social welfare; and identify two types of government policies aimed at reducing deadweight loss.

Topic: Market Failure

QUESTION:

When the government imposes an excise tax on foreign imports:

- A. domestic consumers are harmed.**
- B. domestic firms benefit.**
- C. domestic firms are harmed.**
- D. domestic consumers are harmed and domestic firms benefit.**

Baye - Chapter 14 #20

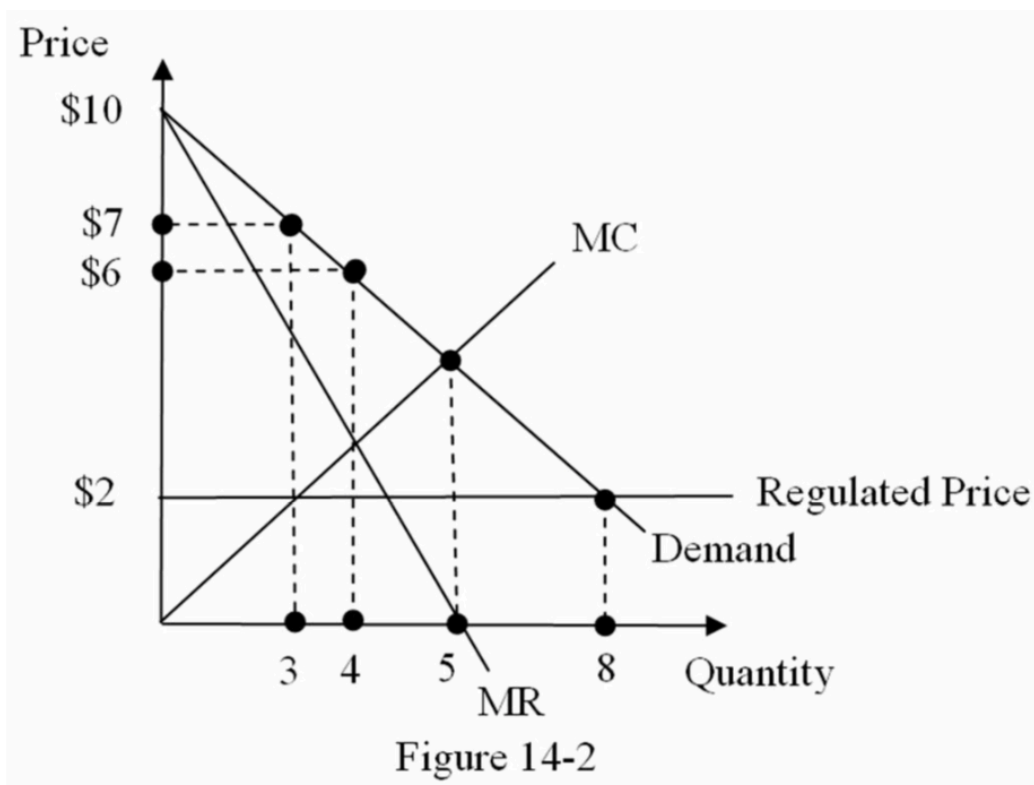
how how government policies in international markets; such as quotas and tariffs; impact the prices and quantities of domestic goods and services.

Topic: Government Policy and International Markets

QUESTION:

Consider the monopoly in the figure below with price regulated at \$2 per unit. In this market, _____ units will be exchanged.

- A. 3
- B. 4
- C. 5
- D. 8



Baye - Chapter 14 #63

Explain why market power reduces social welfare; and identify two types of government policies aimed at reducing deadweight loss.

Topic: Market Failure