QUIZ 10 VERSION B
"Introduction to Economic Regulation"

INSTRUCTIONS: This exam is closed-book, closed-notes. Simple calculators are permitted, but graphing calculators or calculators with alphabetical keyboards are NOT permitted. Mobile phones or other wireless devices are NOT permitted. Points will be subtracted for illegible writing or incorrect rounding.

Multiple choice: Circle the one best answer to each question. [10 pts each]

(1) The principle that a regulated firm "is entitled to ask for a fair return" on investment was established by the Supreme Court in the case of
a.   Smyth v. Ames.
b.   Standard Oil v. United States.
c.   United States v. United Shoe.
d.   Nebbia v. New York.

(2) The largest wave of new federal regulation in the United States occurred in the
a.   1910s.
b.   1930s.
c.   1950s.
d.   1970s.
e.   1990s.

(3) The normative theory of regulation describes
a.   regulation that maximizes social welfare.
b.   actual regulation as it occurs now in practice.
c.   historical regulation.
d.   none of the above.

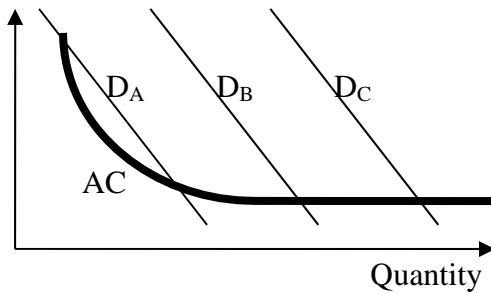(4) Regulation serves only the industry regulated according to the
a.   Stigler-Peltzman theory of regulation.
b.   Becker theory of regulation.
c.   "normative analysis as positive theory" of regulation (also called the "public interest" theory of regulation).
d.   "capture theory" of regulation.

(5) Suppose regulators must choose between regulatory outcomes X and Y. If they choose X, one million people will gain $1 each. If they choose Y, one thousand people will gain $1000 each. According to economic theories of regulation, free-rider problems in political organization lead to the prediction that
a.   regulators will choose outcome X.
b.   regulators will choose outcome Y.
c.   either outcome is equally likely because the total gains are equal.
d.   Cannot be determined from information given.

(6) If there is no way to produce a target level of output more cheaply by two firms than by one firm, then *by definition* we have
a. subadditive costs.
b. oligopoly.
c. falling marginal cost.
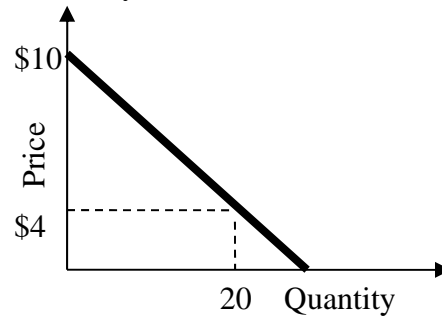d. falling total cost.
e. economies of scale.

The next question refers to the following graph of a representative firm's average cost (AC) curve and three possible demand curves labeled D_A, D_B, and D_C.

The next question refers to the following graph of a demand curve for a typical public-utility customer.

(9) If the per-unit price is set at $2, then the maximum entry fee this customer will pay is
a. $2.
b. $4.
c. $10.
d. $20.
e. $60.
f. $80.

(7) The industry in the graph above is *not* a natural monopoly if demand is at
a. D_A.
b. D_B.
c. D_C.
d. D_A or D_B.
e. D_B or D_C.

(8) Social deadweight loss is minimized when price is set equal to
a. average total cost.
b. average variable cost.
c. average fixed cost.
d. marginal cost.

(10) In a Ramsey pricing scheme, as in market-segmenting price discrimination, the market segment with less-elastic demand gets
a. the smaller price-cost margin.
b. the larger price-cost margin.
c. the same price-cost margin, assuming marginal costs are identical.
d. cannot be determined from information given.

[end of quiz]