ECON 180 - Regulation & Antitrust Policy
Drake University, Spring 2015
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Signature: ____________________

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QUIZ 12 VERSION A
"Regulation and Deregulation of Telecommunications"

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.

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

(1) In the early 1900s, AT&T
a. resisted government regulation as an unwarranted interference in the affairs of a private business.
b. welcomed government regulation as protection from competition and from antitrust liability.
c. repeatedly brought antitrust suits against its rivals.
d. None of the above.

(2) AT&T's tariffs long prohibited customers from attaching equipment made by other manufacturers. This prohibition was first successfully challenged in the
a. Modification of Final Judgment, effective 1984.
b. Telecommunications Act of 1996.
c. Hush-a-Phone case of 1956.
d. MCI case of 1969.

(3) From 1882 to 1980, AT&T purchased its equipment from
a. foreign suppliers, exclusively.
b. the open market, by competitive bid.
c. its own subsidiary, which also sold equipment to other companies.
d. its own subsidiary, which sold only to AT&T.

(4) A decline in the so-called "fixed cost" of production will
a. increase the efficient scale of operation.
b. decrease the efficient scale of operation.
c. shift the average cost upward.
d. alter the marginal cost curve.

(5) Let $C(Q_X,Q_Y)$ denote a firm's total cost of producing simultaneously Q_X units of product X, and Q_Y units of product Y. Then $[C(Q_X,Q_Y) - C(0,Q_Y)]$ is called
a. marginal cost.
b. average cost.
c. incremental cost.
d. average incremental cost.

(6) If a regulated monopoly is required to price Service A above average cost and Service B below average incremental cost, then entry will occur only in the market for Service A. This phenomenon is called
a. predation.
b. economies of scope.
c. cream-skimming.
d. increasing returns.

(7) The DOJ Antitrust Division filed suit against AT&T in 1974, accusing AT&T of

a. monopolizing long-distance telecommunications markets by making it difficult for competitors to connect to the local network.
b. violating the 1956 Final Judgment by entering unregulated markets, such as computers.
c. predatory pricing.
d. price-fixing.
e. All of the above.

(8) The 1982 consent decree (or "Modification of Final Judgment") required AT&T to divest its

a. long-distance operations.
b. equipment manufacturing operation.
c. local phone companies.
d. research arm, Bell Laboratories.
e. All of the above.

(9) Even after entry of competitors, the FCC continued to regulate AT&T's long-distance rates because the FCC feared

a. customers would abandon AT&T.
b. AT&T might go bankrupt.
c. AT&T might engage in predation against other long-distance companies.
d. demand might exceed capacity if prices were reduced too fast.

(10) Today, long-distance telephone rates are regulated through

a. rate-of-return regulation.
b. price caps.
c. entry restrictions.
d. Long-distance rates are unregulated today.

[end of quiz]