

## QUIZ 12 VERSION B

### "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. welcomed government regulation as protection from competition and from antitrust liability.
  - b. repeatedly brought antitrust suits against its rivals.
  - c. resisted government regulation as an unwarranted interference in the affairs of a private business.
  - 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. Hush-a-Phone case of 1956.
  - b. MCI case of 1969.
  - c. Modification of Final Judgment, effective 1984.
  - d. Telecommunications Act of 1996.
- (3) From 1882 to 1980, AT&T purchased its equipment from
- a. its own subsidiary, which also sold equipment to other companies.
  - b. its own subsidiary, which sold only to AT&T.
  - c. foreign suppliers, exclusively.
  - d. the open market, by competitive bid.
- (4) A decline in the so-called "fixed cost" of production will
- a. shift the average cost upward.
  - b. alter the marginal cost curve.
  - c. increase the efficient scale of operation.
  - d. decrease the efficient scale of operation.
- (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. incremental cost.
  - b. average incremental cost.
  - c. marginal cost.
  - d. average 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. cream-skimming.
  - b. increasing returns.
  - c. predation.
  - d. economies of scope.

- (7) The DOJ Antitrust Division filed suit against AT&T in 1974, accusing AT&T of
- predatory pricing.
  - price-fixing.
  - monopolizing long-distance telecommunications markets by making it difficult for competitors to connect to the local network.
  - violating the 1956 Final Judgment by entering unregulated markets, such as computers.
  - All of the above.

- (8) The 1982 consent decree (or "Modification of Final Judgment") required AT&T to divest its
- local phone companies.
  - research arm, Bell Laboratories.
  - long-distance operations.
  - equipment manufacturing operation.
  - 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
- AT&T might engage in predation against other long-distance companies.
  - demand might exceed capacity if prices were reduced too fast.
  - customers would abandon AT&T.
  - AT&T might go bankrupt.

- (10) Today, long-distance telephone rates are regulated through
- entry restrictions.
  - rate-of-return regulation.
  - price caps.
  - Long-distance rates are unregulated today.

[end of quiz]