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

Printed name: ____________________

QUIZ 5 VERSION B
"Oligopoly and Collusion"

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]

The next question refers to the following game. Firms A and B produce competing brands. Each firm finds that advertising is costly but helps attract customers away from its rival.

		Firm B: Advertise	Firm B: Do not advertise
Firm A	Advertise	A gets $4 million. B gets $4 million.	A gets $10 million. B gets $2 million.
	Do not advertise	A gets $2 million. B gets $10 million.	A gets $8 million. B gets $8 million.

(1) If Firm B plays "Do not advertise," what is Firm A's best reply?
a. Advertise.
b. Do not advertise.
c. Both (a) and (b) are best replies.
d. Firm A has no best reply.

(2) The Cournot model of duopoly assumes that each firm maximizes its profit while taking the other firm's
a. output quantity as given.
b. cost as given.
c. price as given.
d. all of the above.

(3) A Cournot firm's *best reply function* shows how the firm will respond to
a. changing cost conditions.
b. its rival's quantity of output.
c. its rival's price.
d. changing market demand conditions.

(4) One implication of the Cournot model of oligopoly is that the equilibrium price is higher,
a. the more firms are in the industry.
b. the more elastic is market demand.
c. both of the above.
d. none of the above.

(5) If four firms want to produce 100 units of output at minimum combined total cost, they should set their output quotas so that
a. all four firms have the same total cost.
b. all four firms have the same average cost.
c. all four firms have the same marginal cost.
d. each firm produces 25 units.

(6) After firms agree to maximize their joint profits, each firm will have an incentive to cheat on any agreement by quietly
a. lowering its output level.
b. lowering its price.
c. raising its price.
d. none of the above.

(7) A cartel member's "trigger strategy" discourages other cartel members from cheating by threatening to
a. raise the market price.
b. lower the market price to the competitive level for a long time.
c. admit new members to the cartel.
d. raise members' costs.

(8) Which market model predicts the highest market price?
a. Cournot oligopoly.
b. Price competition.
c. Collusion to maximize joint profits.
d. All models predict the same quantity of output, if all use the same assumptions about market demand and marginal cost.

(9) Under U.S. law, price-fixing is illegal
a. *per se*, except in industries Congress has exempted.
b. if price is raised significantly above marginal cost.
c. if total market quantity is reduced significantly below the competitive quantity.
d. if significant deadweight loss can be shown.

(10) Under the Department of Justice's corporate leniency program, amnesty can be given to
a. any cartel participants that cooperate with the government investigation.
b. any cartel participants that agree to leave the cartel.
c. the first cartel member that cooperates with the government investigation.
d. the last cartel member that cooperates with the government investigation.

[end of quiz]