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

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QUIZ 6 VERSION A
"Theories of Market Structure"

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]

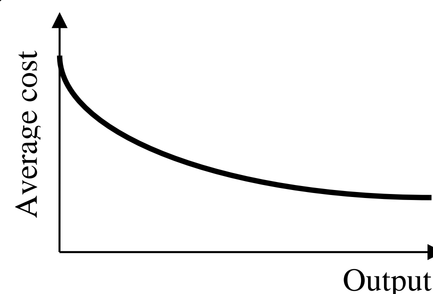
(1) If an industry consists of 5 firms of equal size, its four-firm concentration ratio is
a. 5.
b. 20.
c. 40.
d. 50.
e. 80.

(2) If an industry consists of 20 firms of equal size, its Hirschman-Herfindahl Index (HHI) is
a. 20.
b. 400.
c. 500.
d. 2000.
e. 2500.
f. 5000.

(3) Assume an industry is a Cournot oligopoly and that its price elasticity of demand is constant. Then the higher the industry's Hirschman-Herfindahl Index (HHI) of concentration, the
a. lower its Lerner index (or price-cost margin).
b. higher its Lerner index.
c. The HHI is unrelated to the Lerner index.
d. Cannot be determined from information given.

(4) Which hypothesis claims that higher industry concentration is associated with a loss of social welfare?
a. collusion hypothesis.
b. differential efficiency hypothesis.
c. Both of the above.
d. None of the above.

(5) The average cost curve in the graph below shows
a. economies of scale.
b. diseconomies of scale.
c. neither economies nor diseconomies of scale.
d. Cannot be determined from information given.



(6) Suppose an industry is a Cournot oligopoly but entry is possible after firms pay a fixed, sunk entry cost. The higher that entry cost, the

a. greater the number of firms, in long-run equilibrium.
b. smaller the number of firms, in long-run equilibrium.
c. The entry cost is unrelated to the entry cost.
d. Cannot be determined from information given.

(7) The theory of contestable markets concludes that, even if a market is a natural monopoly, the equilibrium price in the market will

a. be greater than average cost.
b. be equal to average cost.
c. fall after another firm enters the market.
d. rise after another firm enters the market.

(8) Suppose a dominant firm shares a market with a competitive fringe of smaller firms. If the dominant firm lowers the price,

a. total market quantity demanded increases and the fringe's quantity supplied increases.
b. total market quantity demanded increases and the fringe's quantity supplied decreases.
c. total market quantity demanded decreases and the fringe's quantity supplied increases.
d. total market quantity demanded decreases and the fringe's quantity supplied decreases.

(9) According to the model of "dynamic limit pricing," a dominant firm can slow the rate of entry of competitive rivals by setting a

a. low price.
b. high price.
c. The dominant firm's price has no effect on the entry of competitive rivals.
d. Cannot be determined from information given.

(10) One model says that an incumbent firm can deter entry by a second firm if it threatens to cut prices and to force both firms to make a loss. This model has been criticized because

a. cutting prices would actually increase profit.
b. the incumbent firm's threat is not credible.
c. the entrant firm will incur sunk costs and stay in the market regardless of the price.
d. cutting prices would increase total quantity demanded, which would only encourage the entrant.

[end of quiz]