Solve the following multiple-choice problems and mark your answers on the scantron you were given. Write your name and section number on the scantron. (Each problem is worth 2 points)

1. Which one of these characteristics is true about oligopolies?
   (a) They can not make profit in the long run
   (b) They can produce homogenous products
   (c) They face a perfectly inelastic demand
   (d) They compete with many other firm

2. Based on figure 3-1 (below), what can be said about this monopoly?
   (a) It is loosing money, but can still cover its variable cost
   (b) It is loosing money and can not cover its variable cost
   (c) It is making economic profit
   (d) It is breaking even

3. Which one of these industries is the best example of monopolistic competition?
   (a) Car manufactures in the U.S.
   (b) Electricity in Myrtle Beach
   (c) Hotels in Myrtle Beach
   (d) Potato farmers

4. Blockbuster gives its clients a free DVD rental with every DVD that they rent between Monday and Wednesday. What type of price discrimination is this?
   (a) First-degree
   (b) Second-degree
   (c) Third-degree
   (d) Full-Degree
Use table 3-1 to answer problems 5 through 8. Assume that the total fixed cost is $6.

Table 3-1: A Monopoly

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity</th>
<th>Revenue</th>
<th>MR</th>
<th>MC</th>
<th>TVC</th>
<th>TC</th>
<th>ATC</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
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<td>7</td>
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</tr>
</tbody>
</table>

5. **What is the total cost at the profit maximizing quantity?**
   (a) $17
   (b) $23
   (c) $26
   (d) $32

6. **How much profit (loss) would this firm make if it was producing 4 units?**
   (a) It will break even
   (b) $4 profit
   (c) $3 profit
   (d) $3 loss

7. **What is the average total cost when the firm’s marginal revenue equals $5?**
   (a) $4
   (b) $5
   (c) $8
   (d) $10

8. **By how much will revenue change when the firm decreases the price of the good from $8 to $6?**
   (a) It would increase by $5
   (b) It would decrease by $3
   (c) It would decrease by $2
   (d) It would decrease by $3

9. **A car dealer manages to get each of their clients to pay their true maximum willingness to pay. Which of the following will happen as a result?**
   (a) The dealer is likely to charge poor clients less than wealthy clients
   (b) Welfare (total surplus) will fall
   (c) The dealer’s profit will fall
   (d) Consumer surplus will rise
10. Which one of these firms will be considered a **natural monopoly**?
(a) The sole company in an industry that experiences industry-wide economies of scale
(b) A pharmaceutical firm that receives a patent on a new medicine that can cure AIDS
(c) A company that is the sole producers of jewelry since it controls the supply of gold
(d) The only utility company to receive a license to operate in a given area

11. Unlike **perfect competitors**, monopolistic competitors:
(a) Can make profit in the long run
(b) Do not have a fixed cost
(c) Interact strategically
(d) Produce heterogeneous products

12. Which one of these conditions would make collusion **MORE difficult**?
(a) Trust between the colluding firms
(b) A large number of firms
(c) High barriers to entry
(d) Unstable demand

13. All of these conditions **make entry into an industry** more difficult, EXCEPT:
(a) Complicated technological requirement
(b) Low fixed cost to start the business
(c) Industry-wide economies of scale
(d) A patent on the product

**Use table 3-2, which represents a strategic game, to answer problems 14 and 15.**

**Table 3-2: A Strategic Game**

<table>
<thead>
<tr>
<th>Player 2</th>
<th>Cooperate</th>
<th>Defect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperate</td>
<td>($4, $4)</td>
<td>($9, $1)</td>
</tr>
<tr>
<td>Defect</td>
<td>($0, $8)</td>
<td>($3, $2)</td>
</tr>
</tbody>
</table>

14. Why is defecting the dominant strategy for player 1?
(a) Because she would lose less money should player 2 decide to defect
(b) Because it gives her a higher payoff no matter what player 2 does
(c) Because it gives the highest combined payoff for both players
(d) Because it forces player 2 to cooperate

15. If player 2 decides to cooperate, how much will player 1 loose if he decides to cooperate instead of defecting?
(a) $3
(b) $4
(c) $5
(d) $6
16. If a government regulates a monopoly by setting a price ceiling where marginal revenue equals marginal cost, then the monopoly will have the incentive to:
(a) Lie to the government and say that its cost is lower than what it really is
(b) Avoid adopting new production technologies that could reduce its cost
(c) Reduce its production in order to avoid the price ceiling
(d) Leave the industry

17. When a perfectly competitive firm hires its 6th worker its production increase from 40 units to 48 units per hour. If the wage rate is $6 per hour and the price of each unit is $3, what is the value of marginal product from hiring the 6th worker?
(a) $48
(b) $32
(c) $24
(d) $18

18. Buying new computers increases the productivity of professors at Coastal Carolina University. Computers and professors must be:
(a) Complements in production
(b) Substitutes in production
(c) Complements in consumption
(d) Substitutes in consumption

19. Suppose that the wage of Indian workers is $4 per hour and the wage of Americans is $8 per hour. If the marginal product of Indian workers is 12 units and the marginal product of American workers is 24 units at the current levels of production, what would a profit-maximizing American company do?
(a) Keep the current composition of workers
(b) Outsource more jobs to India
(c) Shift more jobs back to the US
(d) Move all its production to India

20. Which of the following will probably decrease the number of workers hired by the beef industry?
(a) An increase in workers’ productivity
(b) An increase in consumers’ income
(c) A decrease in the price of chicken
(d) A decrease in the prevailing wage