

Pledge (sign) _____
“I did not copy another student’s answers”

Economics 4020 – Dr. Rupp
Test #3 – Nov. 7th, 2011
20 Multiple Choice questions – (2.5 points each)

1. What was the recoupment test?
 - a. Requirement imposed by Supreme Court before a company can be found guilty of predatory pricing.
 - b. Amount of oil needed to recover the cost of drilling the well.
 - c. Scientific panel founded by the cigarette companies to investigate health effects
 - d. The number of smokers needed to gain class-action status in litigation with cigarette companies
 - e. The health care savings associated with moving from an HMO to a PPO.

2. In the short-run a monopolistic competitive firm will close if what happens?
 - a. $FC > TR$
 - b. $P > AFC$
 - c. $TVC > P$
 - d. $AVC > MC$
 - e. $TVC > TR$

3. What attributes of cigarettes make them a target of politicians?
 - a. Elastic demand and positive externalities
 - b. Inelastic demand and positive externalities
 - c. Elastic demand and negative externalities.
 - d. Inelastic demand and negative externalities

4. In which decade did the U.S. Surgeon General first warn tobacco smokers that cigarettes may cause cancer?
 - a. 1920s
 - b. 1940s
 - c. 1960s
 - d. 1970s
 - e. 1980s

5. *True or False:* Low tar/low-nicotine cigarettes are safer than regular smokes.
 - a. True
 - b. False

6. In the past thirty years what has happened to the U.S. consumption of cigarettes?
 - a. increased
 - b. decreased
 - c. remained constant

7. In the past twenty years what has happened to wholesale cigarette prices (excluding taxes)?
 - a. increased
 - b. decreased
 - c. remained constant

8. What is the concentration rate of the U.S. cigarette industry:
 - a. High concentration
 - b. Moderate concentration
 - c. Low concentration

9. Which of the following is the biggest threat to the market share of big tobacco makers?
 - a. The ban on television tobacco advertising
 - b. High labor costs producing cigarettes
 - c. High transportation costs due to higher gas prices
 - d. High export taxes on cigarettes
 - e. Nonparticipating manufacturers

10. Which media outlet was the first to report the potential link between cigarettes and cancer?
- Playboy*
 - Newsweek*
 - Time*
 - 60 Minutes*
 - Reader's Digest*
11. Which company was the first to introduce annual model changes (i.e., engineering advances, convenience improvements, & cosmetic styling changes)?
- Chrysler
 - Ford
 - GM
 - Mazda
 - Suzuki
12. Which companies pioneered hybrid vehicles?
- Chrysler and Ford
 - GM and Nissan
 - Mercedes and BMW
 - Honda and Toyota
 - Mazda and Suzuki
13. In the auto industry what is a "job bank"?
- A resource that lists current job openings in the auto industry
 - A place where potential auto workers learn automotive skills
 - A place where current auto workers get re-trained to update their skills
 - An outsource agency that recruits auto workers to work overseas
 - A place where unneeded auto workers go and wait to be called to work
14. Barriers to entry in the automotive industry in the early 1900's were said to be:
- Low
 - High
15. In the 1980's when the domestic automakers were losing market share to the Japanese companies what did Detroit automakers ask Washington to do?
- Put tariffs on Japanese vehicles
 - Place import quota on Japanese vehicles
 - Require Japan to purchase U.S. vehicles
 - Require Japanese automakers to build cars in the U.S.
 - Prevent new model introductions by Japanese companies for four years
16. The term for selling a "slightly different" product is called:
- Product similarity
 - Product sameness
 - Product differentiation
 - Product uniqueness
 - Price discrimination

17. A monopolistic competitive market could be considered inefficient because:
- Marginal revenue exceeds average revenue
 - Price exceeds marginal cost
 - The efficient scale of production is only achieved in the long-run, but not in the short-run
 - Markup pricing does not occur in any other market structure
18. True/False: A monopolistic competitive firm can earn economic profits in the long-run.
- True
 - False
19. Who was the first economist to coin the phrase “monopolistic competition”?
- Augusto Cournot
 - E.H. Chamberlin
 - Larry Summers
 - Paul Voeckler
 - Adam Smith
20. When a firm operates with excess capacity
- Additional production would lower the average total cost
 - Additional production would increase the average total cost
 - It must be a perfectly competitive firm
 - It must be a duopoly firm

Extra credit (+2.5 points). You are eligible to answer the extra credit question if you meet two criteria: (1) your cell phone did not ring during class since test 1; and (2) you are taking the test at the regularly scheduled day and time:

21. Which duopoly model assumes that firms are price competitors?
- Cartel
 - Cournot
 - Stackleberg
 - Bertrand
 - Monopolistic Competition

Short-answer questions (10 points each)

- Discuss why domestic auto-makers currently have higher production costs per vehicle than Japanese automakers.

Name _____

2. Given the following demand curve: $Q = 100 - P$ and marginal costs = 10. Given that there are two firms, assumed to be Cournot competitors, calculate the following:
- Price
 - Quantity (for each firm)
 - Profit (for each firm)

Name _____

3. How did the cigarette manufacturers respond, what did they do, when the media initially reported that cigarettes may cause cancer? Did they agree/disagree/refute these media reports? What role did their response play in later lawsuits?

Name _____

4. Given the following demand curve: $Q = 100 - P$ and marginal costs = 10. Given that there are two firms, assumed to be Bertrand competitors, calculate the following:
- Price
 - Quantity (for each firm)
 - Profit (for each firm)

Name _____

5. Given the following demand curve: $Q = 100 - P$ and marginal costs = 10. Given that there are two firms, assumed to be Stackleberg competitors, calculate the following:
- a. Price
 - b. Quantity (for each firm)
 - c. Profit (for each firm)