

Pledge (sign) key
"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

Name _____

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

Name _____

17. A monopolistic competitive market could be considered inefficient because:
- a. Marginal revenue exceeds average revenue
 - b. Price exceeds marginal cost
 - c. The efficient scale of production is only achieved in the long-run, but not in the short-run
 - d. 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.
- a. True
 - b. False
19. Who was the first economist to coin the phrase "monopolistic competition"?
- a. Augusto Cournot
 - b. E.H. Chamberlin
 - c. Larry Summers
 - d. Paul Voeckler
 - e. Adam Smith
20. When a firm operates with excess capacity
- a. Additional production would lower the average total cost
 - b. Additional production would increase the average total cost
 - c. It must be a perfectly competitive firm
 - d. 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?
- a. Cartel
 - b. Cournot
 - c. Stackleberg
 - d. Bertrand
 - e. Monopolistic Competition

Short-answer questions (10 points each)

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

- LEGACY COSTS

- HEALTH CARE

- RETIREMENT

- UNIONS

- HIGHER UNIONIZATION RATES DOMESTIC IN MIDWEST
THAN SOUTHERN STATES JAPANESE PRODUCTION.