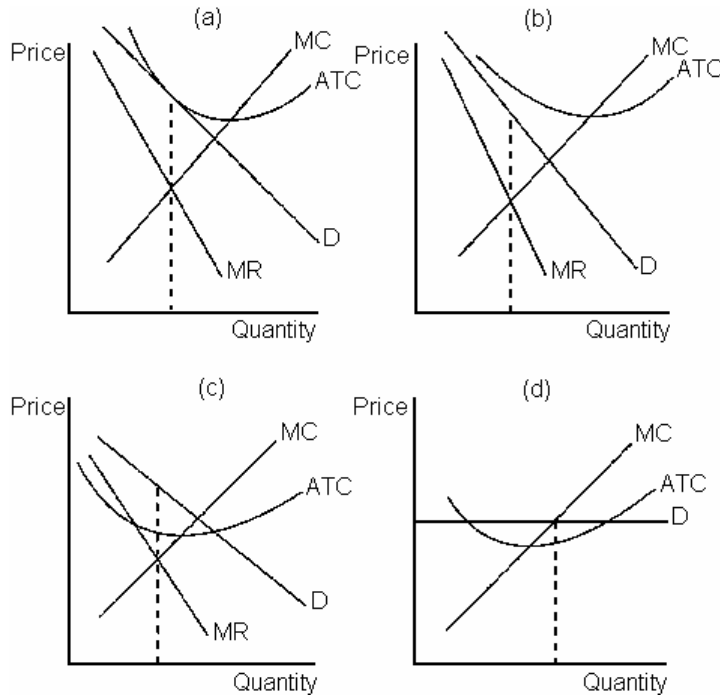


25 Multiple Choice Questions (worth 2 points each)

The following formulas may prove useful:  $MR = P(1 - 1/|E_p|)$ .  $E_p = (P/Q)*(1/slope)$ .  $(P-MC)/P = 1/|E_p|$

1. Monopolistic competition *differs* from perfect competition because in monopolistically competitive markets
- each seller offers a slightly different or differentiated product.
  - there are barriers to entry.
  - all firms can earn economic profits in the long run.
  - all firms can earn economic profits in the short run.

Use the figures below to answer the next two questions.



2. Which panel above reflects a long-run equilibrium for a firm in a monopolistically competitive market?

- panel a
- panel b
- panel c
- panel d

3. Panel b above is consistent with a firm in a monopolistically competitive market that is

- incurring economic gains.
- incurring economic losses.
- breaking-even.

4. Given the demand curve:  $P = 12 - \frac{1}{2}Q$ .  $MC = \frac{1}{2}Q$ . Find the price elasticity of demand at the profit maximizing output for this monopolist.

- a.  $-1/2$
- b.  $-1$
- c.  $-3/2$
- d.  $-2$
- e.  $-12$

5. The price elasticity of demand for cigarettes is  $-0.4$ . How do we interpret this number?

- a. A \$1 increase in price of cigarettes, reduces quantity demanded by 0.4 percent.
- b. A 1 cent increase in price of cigarettes, reduces quantity demanded by 0.4 percent.
- c. A 1 percent increase in cigarette prices, reduces total revenue by 0.4 percent.
- d. A \$1 increase in price of cigarettes, reduces quantity demanded by 0.4 units.
- e. A 1 percent increase in cigarette prices, reduces quantity demanded by 0.4 percent.

6. BW3's sells wings for \$0.25 each. The average total cost of a wing is \$0.15, the marginal cost of a wing is \$0.10, the average fixed cost of a wing is \$0.05. Calculate the Lerner index for BW3.

- a. 0.33
- b. 0.40
- c. 0.60
- d. 0.66
- e. 0.80

7. Which state has the highest per capita consumption of cigarettes?

- a. Kentucky
- b. Michigan
- c. North Carolina
- d. Nevada
- e. Utah

8. Boulevard Bagel Shoppe estimates that the price elasticity of demand for a bagel is  $-0.88$ . Based on this information, what suggestion would you give this company if their goal is to increase total revenue?

- a. Increase price
- b. Reduce price
- c. Keep price unchanged.

9. The marginal cost to produce a donut at Krispy Kreme is \$0.10 cents. The average total cost is \$0.12 cents. The price elasticity of demand for donuts by senior citizens is  $-2.5$ , what is Krispy Kreme's profit maximizing price to charge senior citizens?

- a. \$0.10
- b. \$0.12
- c. \$0.15
- d. \$0.17
- e. \$0.20

10. What is excess capacity?

- a. The additional firms that enter when profits exist in perfect competition
- b. The additional firms that enter when profits exist in monopolistic competition.
- c. The difference between the minimum average variable cost and minimum average total cost.
- d. The additional output produced by a monopolist to discourage other firms from entering.
- e. The difference between a monopolistic competition firm's output and minimum average total cost.

11. What was the “Frank Statement”?
  - a. Enron’s confession of faulty accounting.
  - b. The admission by Exxon that it fixed oil prices.
  - c. A promise that cigarette companies would investigate the health effects of smoking.
  - d. The discovery that Iraq is illegally imposing oil surcharges.
  - e. Libya’s admission that it sponsored terrorism in the 1980s.
  
12. What happened on Marlboro Friday?
  - a. Philip Morris announces price decreases for Marlboro
  - b. Marlboro began the “Cowboy/Western Image” advertising campaign.
  - c. Philip Morris admits to spiking nicotine levels in Marlboro
  - d. Philip Morris announces price increases in Marlboro
  - e. Philip Morris reaches a tobacco settlement
  
13. Which cigarette had the largest market share in 1900?
  - a. Camel
  - b. Lucky Strike
  - c. Marlboro
  - d. Sweet Caporal
  - e. Winston
  
14. What is the law of common capture?
  - a. Also known as the “Homestead Act”, it granted free land to settlers willing to move to the Western U.S.
  - b. Any oil pumped out of the ground is yours to keep
  - c. This law was used to convict the executives at Enron of fraud
  - d. A law that existed in the 1800s that enabled U.S. citizens to shoot-and-kill convicted felons
  - e. The difference in nicotine levels observed by an actual smoker vs. a machine smoker
  
15. In 1953, what was the name of the publication that first reported that cigarette smoking was hazardous?
  - a. American Journal of Medicine
  - b. GQ (Gentleman’s Quarterly)
  - c. New England Journal of Medicine
  - d. Reader’s Digest
  - e. Seventeen
  
16. Who was the auditor at Enron and WorldCom?
  - a. Arthur Anderson
  - b. KMPG
  - c. Ernst & Young
  - d. Price Waterhouse Coopers
  - e. Deloitte & Touche
  
17. Which country was the first to allow independent oil companies access to their oil fields?
  - a. Iran
  - b. Iraq
  - c. Kuwait
  - d. Saudi Arabia
  - e. Venezuela

18. Since the U.S. Surgeon General concluded that cigarette smoking causes cancer in 1964, how many major U.S. tobacco companies have been founded?

- a. 0
- b. 1
- c. 2
- d. 3
- e. 4

19. Col. Muamer Qaddafi overthrew the Libyan government in September 1960. What was his first oil-related decision that he made?

- a. Builds the world's largest (at the time) refinery in Libya
- b. Explores for oil off the coast of Libya
- c. Builds a Libya-to-Egypt oil pipeline
- d. Renegotiates all state oil contracts
- e. Joins OPEC

20. Why was the CEO at supermarket giant Ahold NV recently fired?

- a. Accounting scandal
- b. Bribery of a Dutch politician
- c. Comments supporting neo-Nazi activity in Germany
- d. Poor performance of companies stock
- e. Revelation that the CEO previously served prison time for robbery

21. The mark-up is defined as:

- a. The difference between MR and MC
- b. The difference between MC and ATC
- c. The difference between Price and ATC
- d. The difference between Price and MC
- e. The difference between AVC and ATC

22. Firms in which of the following industries do **not** advertise:

- a. Monopoly
- b. Monopolistic Competition
- c. Perfect Competition

23. What is the profit maximizing rule used by the monopolistically competitive firm?

- a. Set  $MC = MP$
- b. Set  $MR = MC$
- c. Set  $Price = MR$
- d. Set  $MR = \min \text{ of } ATC$
- e. Set  $MC = \min \text{ of } ATC$

24. What was Project Braveheart?

- a. The planned sequel to the movie Braveheart
- b. The name given to the internal Enron memo that documented accounting irregularities
- c. The Indian electricity project that soured
- d. A failed partnership between Enron and Blockbuster to deliver movies in home
- e. The plan to offer online trading of weather derivatives

25. True or False: General Mills is the only seller of the breakfast cereal Cheerios, thus General Mills has a monopoly.

- a. True
- b. False

Extra Credit (+2 points): The following extra credit question was taken from the 20-question final exam that Jim Harrick Jr. (former assistant basketball coach at the University of Georgia) gave to his Coaching Principles and Strategies of Basketball class in Fall, 2001:

26. How many points does a 3-point field goal account for in a Basketball Game?

- a. 1
- b. 2
- c. 3
- d. 4

I. Monopoly Discussion Questions

1. The demand curve for a monopolist is:  $P = 180 - 2Q$ .  $MC = 2Q$  and  $TC = Q^2 + 10$ .

a. Find the equation for Marginal Revenue (2 point).

b. On the diagram below, graph the demand curve, marginal revenue, and marginal cost (3 points)

P

\_\_\_\_\_ Q

2. Find values for  $P_M$  &  $Q_M$  (show your work) (2 points).

3. On the graph, lightly shade the region of consumer surplus for this monopoly (1 point)

4. On the graph, use pin stripes to indicate the area of producer surplus for this monopolist. (1 point)

5. On the graph, heavily shade the deadweight loss region (1 point)

6. Calculate the consumer surplus for this monopolist (no credit if you don't show your work) (1 point)

7. Calculate the producer surplus for this monopolist (no credit if you don't show your work) (1 point)

8. Calculate the deadweight loss for this monopolist (no credit if you don't show your work) (1 point)

9. Calculate the profit for this monopolist (no credit if you don't show your work) (1 point)

II. Enron Discussion Questions (4 points each)

a. Briefly explain what were: LJM Cayman and LJM Co-investment.

b. How did Cayman and LJM Co-investment contribute to the downfall of Enron?

c. Eight lessons from Enron were discussed in class. Briefly discuss 4 of these “lessons”.





