

Oligopoly

1. Markets with only a few sellers, each offering a product similar or identical to the others, are typically referred to as
 - a. monopoly markets.
 - b. perfectly competitive markets.
 - c. monopolistically competitive markets.
 - d. oligopoly markets.

ANSWER: d. oligopoly markets.

2. Firms in industries that have competitors but, at the same time, do not face so much competition that they are price takers, are operating in either a(n)
 - a. monopoly or monopolistically competitive market.
 - b. monopolistically competitive or perfectly competitive market.
 - c. oligopoly or monopoly market.
 - d. oligopoly or monopolistically competitive market.

ANSWER: d. oligopoly or monopolistically competitive market.

3. Firms in the United States are typically classified as
 - a. duopolists.
 - b. imperfectly competitive.
 - c. oligopolists.
 - d. perfectly competitive.

ANSWER: b. imperfectly competitive.

4. Which list contains all market structures having many firms?
 - a. oligopoly and perfect competition
 - b. oligopoly and monopolistic competition
 - c. perfect competition and monopolistic competition.
 - d. oligopoly, perfect competition, and monopolistic competition.

ANSWER: c. perfect competition and monopolistic competition.

5. As a group, oligopolists are always better-off collectively if they
 - a. decrease prices.
 - b. limit production.
 - c. increase production.
 - d. each operate according to their own self-interest.

ANSWER: b. limit production.

6. Because each oligopolist cares about its own profit rather than the collective profit of their industry
 - a. society is worse-off.
 - b. they are unable to maintain monopoly power.
 - c. they are able to maximize industry profits.
 - d. All of the above are correct.

ANSWER: b. they are unable to maintain monopoly power.

The information in the table depicts the total demand for premium channel digital cable TV subscriptions in a small urban market. Assume that digital cable TV operators each pay a fixed cost of \$80,000 (per year) to provide premium digital channels in their market area and that the marginal cost of providing the premium channel service to a household is zero.

Quantity	Price(per year)
0	\$120
2,000	\$100
4,000	\$80
6,000	\$60
8,000	\$40
10,000	\$20
12,000	\$0

7. According to this table, assume that there are two profit-maximizing digital cable TV companies operating in this market. Further assume that they are able to “collude” on price and quantity of premium digital channel subscriptions to sell. As part of their collusive agreement they decide to take an equal share of the market. How much profit will each company make?
- \$160,000
 - \$140,000
 - \$120,000
 - \$100,000

ANSWER: b. \$140,000

8. According to this table, what will be the quantity produced if the market is a monopoly? What will be the quantity produced if the market is a two-firm oligopoly where the two firms are unable to collude and reach a Nash equilibrium?
- monopoly production 4,000, oligopoly production 8,000
 - monopoly production 6,000, oligopoly production 8,000
 - monopoly production 8,000, oligopoly production 10,000
 - None of the above is correct

ANSWER: b. monopoly production 6,000, oligopoly production 8,000

9. When an oligopoly market is in Nash equilibrium,
- a firm’s best pricing strategy depends on the strategy of other firms.
 - market price will be different for each firm.
 - individual firms will not behave as profit maximizers.
 - All of the above are correct.

ANSWER: a. a firm’s best pricing strategy depends on the strategy of other firms.

10. Cartels are often short-lived because
- laws often prohibit explicit collusive agreements among competitors.
 - self-interest often conflicts with cooperation.
 - it is difficult to enforce agreements reached by cartels.
 - All of the above are correct.

ANSWER: d. All of the above are correct.

11. As the number of firms in an oligopoly grows larger, price and output in that market approach
- those in a competitive market.
 - those in a monopoly.
 - the Nash equilibrium of a duopoly.
 - None of the above is correct.

ANSWER: a. those in a competitive market.

Two firms are suspected of dumping toxic chemicals at a location unknown to the government who will be unable to find the site unless one of the firms reveals it. Each firm has been presented with an opportunity to lower their liability in the suit if they reveal the site to the government.

		Firm A	
		Reveal the site.	Keep the site secret.
Firm B	Reveal the site.	Firm A profit = -\$30 b Firm B profit = -\$25 b	Firm A profit = -\$60 b Firm B profit = -\$15 b
	Keep the site secret.	Firm A profit = -\$15 b Firm B profit = -\$60 b	Firm A profit = -\$20 b Firm B profit = -\$20 b

12. According to this decision box, if both firms follow a dominant strategy, the losses of Firm A and Firm B respectively will be
- \$30 b and -\$25 b.
 - \$60 b and -\$15 b.
 - \$15 b and -\$60 b.
 - \$20 b and -\$20 b.

ANSWER: a. -\$30 b and -\$25 b.

13. According to this decision box, which of the following is the dominant strategies for the firms?
- Firm A should reveal the site and Firm B should keep it secret.
 - Firm A should keep the site secret and Firm B should reveal it.
 - Both firms should reveal the site.
 - Both firms should keep the site secret.

ANSWER: c. Both firms should reveal the site.

14. In a world with only two countries, the noncooperative outcome to an “arms race” game is clearly
- bad for society.
 - the best possible outcome for society.
 - optimal for one player at the expense of the other.
 - better than the cooperative outcome.

ANSWER: a. bad for society.

15. Very often, the reason that players can solve the prisoners’ dilemma game and reach the most profitable outcome is that
- the game becomes more competitive.
 - they play the game not once, but many times.
 - each player tries to capture a large portion of the market share.
 - All of the above can solve the prisoners’ dilemma.

ANSWER: b. they play the game not once, but many times.

16. In a two-person repeated game, a tit-for-tat strategy starts with
- cooperation and then each player mimics the other player’s last move.
 - cooperation and then each player is unresponsive to the strategic moves of the other player.
 - non-cooperation and then each player pursues his or her own self-interest.
 - non-cooperation and then each player cooperates when the other player demonstrates a desire for the cooperative solution.

ANSWER: a. cooperation and then each player mimics the other player’s last move.

17. Two students are suspected of cheating together on an exam. If both confess they each get an F on the exam. If one confesses she gets an F in the course and the other student is expelled. If neither student confesses there is no penalty. Considering only these consequences a student should
- confess if he is certain the other will not confess.
 - never confess.
 - always confess.
 - confess if he is certain the other will confess.

ANSWER: d. confess only if he is certain the other will confess.

18. The Sherman Antitrust Act
- was passed to encourage judicial leniency in the review of cooperative agreements.
 - was concerned with Nash equilibria dominated by self-interest in prisoners’ dilemma games.
 - provided tax advantages to firms who engaged in competitive behavior.
 - restricted the ability of competitors to engage in cooperative agreements.

ANSWER: d. restricted the ability of competitors to engage in cooperative agreements.

19. Antitrust laws in general are used to
- prevent oligopolists from acting in ways that make markets less competitive.
 - help oligopolists resolve their version of the prisoner’s dilemma.
 - encourage oligopolists to pursue cooperative-interest at the expense of self-interest.
 - All of the above are correct.

ANSWER: a. prevent oligopolists from acting in ways that make markets less competitive.
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM:Y

20. Suppose discount electronics retailers free ride on information about products provided by nondiscount retailers. The information that is provided about products is
- greater than the optimal quantity.
 - the optimal quantity.
 - less than the optimal quantity.
 - Not necessarily any one of the above.

ANSWER: c. less than the optimal quantity.

21. The practice of requiring someone to buy two or more items together is
- illegal because it allows firms to form collusive arrangements.
 - not illegal because it increases the well-being of society.
 - illegal because it allows firms to expand their market power.
 - not illegal because collusive agreements are conducive to cooperative outcomes.

ANSWER: c. illegal because it allows firms to expand their market power.

22. The practice of selling a product to retailers and requiring the retailers to charge a specific price for the product is called
- resale price maintenance.
 - fixed retail pricing.
 - unfair trade.
 - cost plus pricing.

ANSWER: a. resale price maintenance.

23. In 1971, Congress passed a law that banned cigarette advertising on television. After the ban it is most likely that,
- the prisoners' dilemma for the two companies with respect to television advertising was solved.
 - profits of cigarette companies fell.
 - profits of cigarette companies rose.
- (i) and (ii)
 - (ii) and (iii)
 - (i) and (iii)
 - All of the above are correct.

ANSWER: c. (i) and (iii)

24. Predatory pricing is best exemplified when a firm
- exercises its monopoly power by raising its price.
 - cuts its prices in order to make itself more competitive.
 - cuts its prices temporarily in order to drive out any competition.
 - exercises its oligopoly power by raising its price through the formation of a cartel.

ANSWER: c. cuts its prices temporarily in order to drive out any competition.

25. A central issue in the Microsoft antitrust lawsuit involved Microsoft's integrating its Internet browser into its Windows operating system, to be sold as one unit. This practice is known as
- collusion.
 - tying.
 - resale price maintenance.
 - price fixing.

ANSWER: b. tying.

- 1 ANSWER: d. oligopoly markets.
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM:Y
- 2 ANSWER: d. oligopoly or monopolistically competitive market.
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM:Y
- 3 ANSWER: b. imperfectly competitive.
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM:Y
- 4 ANSWER: c. perfect competition and monopolistic competition.
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM:Y
- 5 ANSWER: b. limit production.
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:Y
- 6 ANSWER: b. they are unable to maintain monopoly power.
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:Y
- 7 ANSWER: b. \$140,000
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:N INSTRUCTION: 1
- 8 ANSWER: b. monopoly production 6,000 oligopoly production 8,000
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM: N INSTRUCTION: 1
- 9 ANSWER: a. a firm's best pricing strategy depends on the strategy of other firms.
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:Y
- 10 ANSWER: d. All of the above are correct.
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:Y
- 11 ANSWER: a. those in a competitive market.
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:Y
- 12 ANSWER: a. -\$30 b and -\$25 b.
TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM: N INSTRUCTION: 2
- 13 ANSWER: c. Both firms should reveal the site.
TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM: N INSTRUCTION: 2
- 14 ANSWER: a. bad for society.
TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM:Y
- 15 ANSWER: b. they play the game not once but many times.
TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM:Y

16 ANSWER: a. cooperation and then each player mimics the other player's last move.
TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM:Y

17 ANSWER: d. confess if he is certain the other will confess.
TYPE: M KEY1:D SECTION: 3 OBJECTIVE: 3 RANDOM:Y

18 ANSWER: d. restricted the ability of competitors to engage in cooperative agreements.
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM:Y

19 ANSWER: a. prevent oligopolists from acting in ways that make markets less competitive.
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM:Y

20 ANSWER: c. less than the optimal quantity.
TYPE: M KEY1:D SECTION: 4 OBJECTIVE: 4 RANDOM:Y

21 ANSWER: c. illegal because it allows firms to expand their market power.
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM:Y

22 ANSWER: a. resale price maintenance.
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM:Y

23 ANSWER: c. (i) and (iii)
TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM:Y

24 ANSWER: c. cuts its prices temporarily in order to drive out any competition.
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM:Y

25 ANSWER: b. tying.
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM:Y