



Take Test: Final

Test Information

Description

Instructions

Timed Test This test has a time limit of 3 hours and 5 minutes. You will be notified when time expires, and you may continue or submit. Warnings appear when **half the time, 5 minutes, 1 minute, and 30 seconds** remain.

Multiple Attempts Not allowed. This test can only be taken once.

Force Completion This test can be saved and resumed later. The timer will continue to run if you leave the test.

Remaining Time: 2 hours, 38 minutes, 16 seconds.

Question Completion Status:

QUESTION 1

10 points Save Answer

Section A

True or Falls - Explain [The grade will depend on the quality of explanation]: (Points 3x10 = 30)

1. The supply curve of a firm in oligopoly is its upward sloping marginal cost curve from the minimum point of average variable cost curve.

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QUESTION 2

10 points Save Answer

2. Price discrimination by a monopolist does not have any effect on the size of welfare loss in comparison with the perfectly competitive situation.

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QUESTION 3

10 points Save Answer

3. An incumbent high-cost monopoly firm, knowing potential entrant's cost, will never be able to prevent entry of a firm who doesn't know incumbent's cost of production.

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QUESTION 4

20 points Save Answer

Section B

1. Consider a retailer facing the market demand curve, $p = 50 - 0.1Q$ who buys the product from a whole seller, a monopolist, whose marginal cost to produce the product is \$10 and fixed cost is zero.
(Points 8+4+4+4=20)

(a) Determine the quantity produced by the whole seller and the price and profit of both whole seller and retailer.

Show that

(b) if both retailer and whole seller merge into a single firm then the total profit will increase;

(c) the profit of the merged firm increases as it discriminates the market up to three times;

(d) the price elasticity of demand at the equilibrium price increases as the vertically merged firm continuing price discrimination..

QUESTION 5

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QUESTION 6

30 points Save Answer

2. Consider an industry with nine identical firms setting quantity simultaneously as in Cournot where a firm produces output at a constant unit cost of \$10 and confronting a demand function described by $Q = 500 - 10p$. (Points 5+6+6+8+5= 30)

- (a) Determine equilibrium quantity and profit of each firm.
- (b) Suppose six of those nine firms decide to merge to a single firm.
 - (i) Show that the each "outsider" firm, increases its profit.
 - (ii) Show that the profit of the post - merged "insider" firm reduces compared to the combined profit of six pre-merged firms.
- (c) Now suppose nine original firms merged into three new firms where each new firm is a merger of three original independent firms. Show that the profit of each new firm is more than the total profit of three independent old firms.
- (d) Determine profit if nine original firms become a duopoly through merger and compare it with the monopoly profit.
- (e) Show that the consumers are worse off due to merger in each case as stated in (b), (c) and (d).

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QUESTION 7

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QUESTION 8

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QUESTION 9

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QUESTION 10

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QUESTION 11

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QUESTION 12

10 points Save Answer

3. Consider the demand and cost situation described in question 2. Also consider the merger of all firms as you did in 2(c) that makes it a monopolist. Now suppose a new firm enters with a setup cost, $F \geq 0$, as follower. (Points 5+5 = 10)

- a. Determine quantity and profits of both incumbent and follower.
- b. Determine the limit price that would prevent entry.

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QUESTION 14

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