Principles of Microeconomics
Assignment 8 (Chapter 10)
Answer Sheet

Name ____________________________ Class Day/Time ____________________

Questions of this homework are in the next few pages. Please find the answer of the questions and fill in the blanks below. Turn in this answer sheet on the due date in class. Keep the remaining pages to study.

1. ________

2. ________

3. ________

4. ________

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10. ________

11. ________

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17. ________

18. ________

19. ________

20. ________

Principles of Microeconomics
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______ 1. The term *monopolistic competition*
a. is an alternate expression for monopoly
b. is used to describe perfect competition with strong entry barriers
c. denotes an industry with many sellers of identical/homogeneous products
d. denotes an industry with many sellers of differentiated products

______ 2. If Family Travel Agency, a monopolistic competitor, offers services that are differentiated from the services of other producers in the industry, it
a. faces a perfectly elastic demand curve
b. is a price taker
c. has some power to control the price it charges
d. faces a perfectly inelastic demand curve

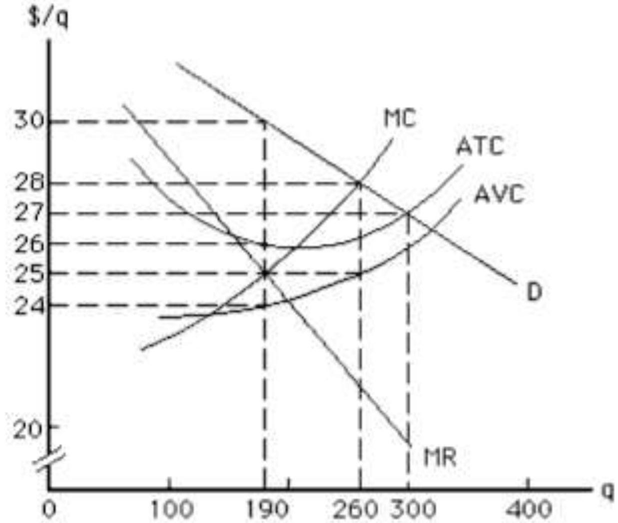
______ 3. If a monopolistically competitive firm raises its price, it
a. loses all of its customers (sales drop to zero)
b. loses some, but not all, of its customers
c. loses no customers at all
d. gains customers (sales increase)

______ 4. Which of the following is most likely produced in a monopolistically competitive market?
a. restaurant meals
b. computer chips
c. firewood
d. motorcycles

______ 5. A monopolistic competitor's demand curve is
a. perfectly elastic when there are substitutes.
b. perfectly inelastic if products are less differentiated.
c. as elastic as a monopolist’s demand.
d. more inelastic if products are more differentiated.

______ 6. What do monopolistic competition, monopoly, and perfect competition have in common?
a. Easy entry
b. the rule of profit maximization
c. differentiated product
d. price taking

Exhibit 10-7



_____ 7. Assume that the firm in Exhibit 10-7 is maximizing profit. Its total revenue is
a. $5,320
b. $5,700
c. $4,750
d. $8,120

_____ 8. At the profit-maximizing output level, total cost for the firm in Exhibit 10-7 is approximately
a. $5,700
b. $5,320
c. $4,750
d. $4,940

_____ 9. At the profit-maximizing output level, the firm in Exhibit 10-7 is
a. earning economic profit of $760
b. earning economic profit of $950
c. suffering a loss of $1,000
d. earning economic profit of $990

_____ 10. In the long run, the firm in Exhibit 10-7 can expect
a. to earn an economic profit of $760
b. earn an economic profit of $950
c. earn zero economic profit
d. earn an economic profit of $990

_____ 11. Oligopolistic industries consist of
a. a few independent firms
b. a few interdependent firms
c. many interdependent firms
d. many independent firms

______ 12. It is harder to explain the behavior of firms in oligopoly than in other market structures because in oligopoly

a. the firms act independently of each other
b. firms base their decisions on what their rivals do
c. only differentiated products are produced
d. only homogeneous products are produced

______ 13. If Ford raises the price of its automobiles, the demand for GM automobiles

a. decreases.
b. is unaffected.
c. becomes more elastic.
d. increases.

______ 14. Which of the following is likely to occur when a two-person game can be played repeatedly?

a. Collusion and cooperation among the players
b. The prisoner's dilemma
c. The industry demand curve will become perfectly elastic
d. The industry demand curve will become perfectly inelastic

______15. The solution in the prisoner's dilemma is called the

a. loss minimizing solution
b. profit maximizing equilibrium
c. Nash equilibrium
d. revenue maximizing equilibrium

______ 16. The payoff matrix refers to

a. the difference between total revenue and total cost at different price levels
b. a listing of the rewards and penalties associated with pursuing various strategies
c. the difference between average and marginal cost for the non-competitive firm
d. the difference between average and marginal revenue in a non-competitive industry

Exhibit 10-15

		Dan'l Boone Tobacco	
		Advertise	Don't advertise
Eagle Tobacco	Advertise	Eagle Tobacco $1150, Dan'l Boone $1150	Eagle Tobacco 2020, Dan'l Boone $630
	Don't advertise	Eagle Tobacco $630, Dan'l Boone $2020	Eagle Tobacco $1500, Dan'l Boone $1500

______ 17. Exhibit 10-15 depicts the payoff matrix facing Eagle Tobacco and Dan'l Boone Tobacco with respect to their decisions to advertise or not. What strategies will maximize their joint profit, if they collude?

a. Eagle advertise and Dan'l Boone doesn't
b. both advertise
c. Eagle doesn't advertise and Dan'l Boone does
d. neither advertises

______ 18. Exhibit 10-15 depicts the payoff matrix facing Eagle Tobacco and Dan'l Boone Tobacco with respect to their decisions to advertise or not. What strategies will most likely result, if they compete?

a. Eagle advertise and Dan'l Boone doesn't
b. both advertise
c. Eagle doesn't advertise and Dan'l Boone does
d. neither advertises

______ 19. Exhibit 10-15 depicts the payoff matrix facing Eagle Tobacco and Dan'l Boone Tobacco with respect to their decisions to advertise or not. What is Eagle Tobacco's dominant strategy, if they compete?

a. advertise
b. Does not advertise
c. It depends on Dan'l Boone's strategy
d. None of the above

______ 20. Exhibit 10-15 depicts the payoff matrix facing Eagle Tobacco and Dan'l Boone Tobacco with respect to their decisions to advertise or not. What are the profits of Eagle Tobacco and Dan'l Boone Tobacco when this market reaches Nash equilibrium?

a. Eagle Tobacco $1150, Dan'l Boone $1150
b. Eagle Tobacco 2020, Dan'l Boone $630
c. Eagle Tobacco $630, Dan'l Boone $2020
d. Eagle Tobacco $1500, Dan'l Boone $1500