

MICROECONOMICS - EXAM IV

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1.
 - a. On the axes below graph a competitive market. Identify the equilibrium price and quantity, and the consumer and producer surpluses. Supposing this market suddenly becomes a monopoly, identify the monopoly price and quantity and show what becomes of the consumer and producer surpluses that existed when the market was competitive.
 - b. What is antitrust legislation intended to do? When was the first piece of antitrust legislation passed?
 - c. Why has antitrust law been applied to labor unions?
 - d. Define a collusive oligopoly. Give an example of collusion. Why does collusion violate U.S. antitrust law?

2.
 - a. What are the characteristics of a monopolistically competitive industry?
 - b. Give an example of a monopolistically competitive industry.
 - c. Why isn't a monopolistic competitor's demand curve perfectly elastic, as a perfect competitor's is?
 - d. Why is a monopolistic competitor's demand curve probably more elastic than a monopolist's demand curve?

3.
 - a. What are the characteristics of an oligopoly? Give an example of a barrier to entry which might exist in an oligopoly.
 - b. Why do oligopoly firms respond to the actions of their competitors?
 - c. Why is game theory used to understand the behavior of uncooperative oligopolies?
 - d. Define a Nash equilibrium. What sort of behavior would we see from firms in a Nash equilibrium?

4.
 - a. What tools could we use to distinguish whether the portrait photography industry is an oligopoly or not? Tell me exactly what you would do to decide whether that industry is an oligopoly.
 - b. Describe how an industry might evolve from an uncooperative to a cooperative oligopoly.
 - c. What type of behavior would you expect of an uncooperative oligopoly that you would not expect of a cooperative oligopoly? Give an example of a cooperative oligopoly. Describe a price leader in a cooperative oligopoly.
 - d. Why does the kinked demand curve of a cooperative oligopoly suggest that price follower firms will be satisfied to follow the price changes of the price leader firm?
 - e. How profitable are the firms in a cooperative oligopoly likely to be?

5. a. Describe the typical stages of industrial organization that an industry would be likely to experience from the time of the introduction of a new product to its organization as a mature industry.

b. Define economies of scale. Give an example of what a service sector firm might do to achieve economies of scale. Give an example of a service sector firm which has achieved economies of scale in the production of its product. How have service sector businesses in America changed since the 1950s as a result of firms having learned how to achieve economies of scale in the service sector of the economy?

c. On the axes below graph a LRAC (long run average cost curve) for a goods-producing firm, which has economies of scale, and for a service-producing firm, which has economies of scale. Explain the differences.

d. What form of industry organization do we see most frequently in American industries? Why?

6. a. Why is it unlikely that factor or resource supply is ever perfectly inelastic, except in the very short run? What evidence do we have that these supply curves are not perfectly inelastic over time?
- b. What are the two components of derived demand?
- c. Define marginal revenue product (or as your book calls it, the value of marginal product) and marginal factor cost (or what your book calls the marginal cost of labor).
- d. Describe the determinant of factor demand elasticity which is only true of firms' demand for resources, but not for consumer demand.
- e. Why is firms' demand for grocery workers more elastic than the demand for plumbers?
- f. Why do economists assume most firms are price takers in the factor markets?

7.
 - a. Define a monopsony. Give an example of a monopsony.
 - b. In what sense is a union a monopoly? Explain why unions were more successful in helping workers in the early part of the 20th century, when workers were regularly employed by monopsonies, than unions are today?
 - c. Define a bilateral monopoly.
 - d. Define an oligopsony. Give an example of a collusive, a cooperative and a competitive or uncooperative oligopsony.

8. a. On the first pair of axes below, graph the marginal revenue product and the marginal factor cost of a firm that is a price taker in this resource market. Identify the profit maximizing amount of this factor for the firm to use.
- b. Explain why this is the profit maximizing amount of the factor to use.
- c. Describe three unique features of labor markets.
- d. On the second pair of axes below, graph a backward bending labor supply curve. Explain why it bends back. Give an example of a circumstance in which this would occur.
- e. Define a compensating wage differential. Give an example of a compensating wage differential.

9. a. Why have Baby Boomers been relatively uninterested in joining labor unions?
- b. On the axes below graph any one of the four examples we have seen of an economic actor weighing the marginal cost against the marginal benefit of an action. Using your example, explain why setting marginal cost equal to marginal benefit always identifies the optimal amount of any action to take?
- c. Define price discrimination. List the conditions which must exist for price discrimination to take place. Give an example of price discrimination. Why do firms price discriminate? Give an example of wage discrimination. Show that the same conditions must exist for wage discrimination to occur.