ECO 3033 Quiz 2 Sample Objective Questions

PART I. True/False

___ 1. A cartel is a group of firms that have joined together to make agreements on pricing and market strategy.

___ 2. There is a great difference between the profit maximization condition for a centralized cartel and that for a multiple-plant firm.

___ 3. Price leadership occurs when specific firms in an oligopolistic group (perhaps even one firm) set a price that subsequently determines what other members of the group will charge.

___ 4. In oligopoly, a firm facing a kinked demand curve will seldom wish to change prices.

___ 5. A duopoly is a market characterized by just two sellers of a specific product.

___ 6. In a joint product problem with products (A and B) produced in fixed proportions, profit would be maximized where MR_A + MR_B = MC, provided that MR_B is negative.

___ 7. Product differentiation refers to a wide variety of activities, such as design changes and advertising, that rival firms employ to attract consumers to their products.

PART II. Multiple Choice

___ 1. In a market characterized by dominant firm price leadership,
   a. the dominant firm accepts the price determined by the larger number of smaller firms.
   b. the smaller firms charge a lower price than that of the dominant firm.
   c. specific firms in an oligopolistic group (perhaps even one firm) set a price that subsequently influences but does not determine what other members of the group will charge.
   d. the market power of the price leading firm is almost never an issue.
   e. the large firm estimates the supply of the small firms.

___ 2. An oligopoly firm is producing where price is greater than marginal cost. Which of the following should it do to maximize profit?
   a. increase output and raise price.
   b. contract output and lower price.
   c. leave output unchanged and lower price.
   d. increase output and lower price.
   e. not necessarily do any of the above, since it may already be maximizing profit.

___ 3. A cartel's marginal cost curve is the
   a. highest of all the individual firms' marginal cost curves
   b. lowest of all the individual firms' marginal cost curves
   c. horizontal sum of all the individual firms' marginal cost curves
   d. average of all the individual firms' marginal cost curves
   e. average of the MC curves of the two members with highest cost (assuming there are numerous other firms).
4. The decision rule for maximizing profits for joint products is:
   a. produce where the sum of marginal revenues for both products is equal to the total marginal costs.
   b. produce where the sum of marginal revenues for both products is greater than the total marginal costs.
   c. produce where the sum of marginal revenues for both products is less than the total marginal costs.
   d. produce where the sum of marginal revenues for both products is equal to the total marginal costs provided that the marginal revenue of neither joint product is negative.
   e. produce where the sum of marginal revenues for both products is equal to the total marginal costs provided that the marginal revenue of only one of them is negative.

5. The pricing technique whereby a certain percentage of cost of goods sold or of price is added to the cost of goods sold in order to obtain the market price is called:
   a. price discrimination.
   b. markup pricing.
   c. transfer pricing.
   d. market segmentation.
   e. retail pricing.

6. Collusion occurs when
   a. a firm chooses a level of output to maximize its own profit
   b. firms get together to enhance joint profits
   c. firms refuse to follow their price leaders
   d. a firm entertains customers at golf resorts.
   e. two firms' price and output decisions come into conflict

7. If an oligopoly firm has multiple plants, it can maximize profit by:
   a. selling off all but one of them.
   b. allocating each plant the same quantity of output.
   c. allocating the largest output to the plant with the highest fixed cost.
   d. allocating the largest output to the plant with the highest variable cost.
   e. allocating output so that marginal cost is the same in all plants.

Answer Section

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