

Write your name on the cover of the test booklet and nowhere else. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 170 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. I cannot give extra time because the class that follows yours.

1) (12 points) Answer EITHER Part A OR Part B.

A) Explain why monopolies may choose to make almost no economic profits, even though they can make large economic profits in the short run.

B) There are at least three reasons why cartels fall apart. Explain TWO of them without using a graph.

2) (12 points) Answer EITHER Part A OR Part B.

A) Explain why marginal revenue is not the same as demand for a monopoly.

B) Draw the *kinked demand* curve. Explain why it takes that shape. DO NOT draw its marginal revenue curve.

3) (16 points) Answer EITHER Part A OR Part B.

A) There are problems with using any measure of concentration of an industry. Explain some general problems which will apply to all measures of concentration.

B) When comparing the Herfindahl-Hirschman Index to the Concentration Ratios, the HHI has some advantages and some disadvantages. Explain one advantage and one disadvantage.

4) (20 points) Use the payoff matrix below to find the following, if they exist: each players' dominant strategy, each players' secure strategy, the Nash equilibrium, and the cooperative equilibrium. Briefly explain how you got each one and show all work. You may write on the matrix itself.

		Mighty Mighty Bosstones	
		High Price	Medium Price
Less Than Jake	Low Price	1010 1050	1020 980
	Very Low Price	540 1080	750 600

5) (40 points) Answer EITHER Part A OR Part B.

A) Suppose that the industry demand curve for a Cournot Duopoly is given by  $P = 130 - (\frac{1}{2})Q$ . The firms have a marginal cost curve given by  $MC = 10$ . Draw the industry demand and derive the firm demand curve. Use that diagram to derive one firm's best response function. Find the equilibrium outputs of the two firms, and the price they sell it for. Show all work and briefly explain what you did.

B) Draw the SRATC/SRAVC/SRMC/D/MR diagram for a monopolistically competitive firm which is losing money but staying in business. State how you know they are losing money but staying in business. Show what will occur over time. Explain why the curve(s) moved as drawn. If the slope changed tell me why it changed, and if it did not change, tell me why it did not. Explain how you knew where to stop the curve(s) movement.