

Econ 101 - Tutorial 8

Multiple Choice

Identify the choice that best completes the statement or answers the question.

Figure 17-4. Two companies, Acme and Bilco, are sellers in the same market. Each company decides whether to charge a high price or a low price. In the figure, the dollar amounts are payoffs and they represent annual profits for the two companies.

		Acme's Decision	
		High price	Low price
Bilco's Decision	High price	Acme's profit = \$5 million Bilco's profit = \$5 million	Acme's profit = \$7 million Bilco's profit = \$2 million
	Low price	Acme's profit = \$2 million Bilco's profit = \$7 million	Acme's profit = \$3.25 million Bilco's profit = \$3.25 million

- _____ 1. **Refer to Figure 17-4.** If this game is played only once, then the most likely outcome is that
 - a. both firms charge a low price.
 - b. Acme charges a low price and Bilco charges a high price.
 - c. Acme charges a high price and Bilco charges a low price.
 - d. both firms charge a high price.

- _____ 2. **Refer to Figure 17-4.** The dominant strategy for Acme is to
 - a. charge a high price, and the dominant strategy for Bilco is to charge a high price.
 - b. charge a high price, and the dominant strategy for Bilco is to charge a low price.
 - c. charge a low price, and the dominant strategy for Bilco is to charge a high price.
 - d. charge a low price, and the dominant strategy for Bilco is to charge a low price.

- _____ 3. **Refer to Figure 17-4.** Suppose we observe that the outcome of the game is one in which each company earns a profit of \$5 million. This outcome
 - a. is the result of each company pursuing its dominant strategy.
 - b. is the result of cooperation between the two companies, and we know that a cooperative outcome is easy in a game such as this one.
 - c. is the result of cooperation between the two companies, and we know that a cooperative outcome is difficult in a game such as this one.
 - d. is the most likely outcome of the game, regardless of whether the two companies cooperate.

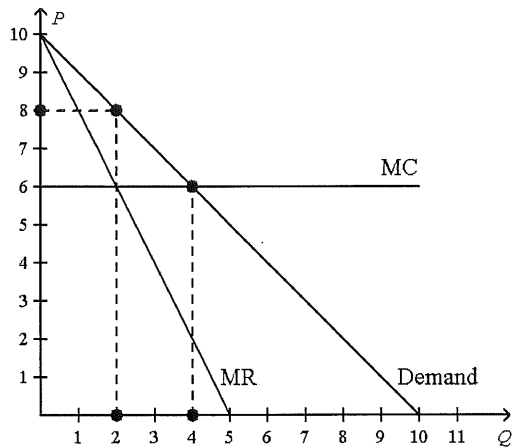
Table 17-25

There are just two producers of a certain product. Each is considering offering promotional discounts.

		Firm A	
		<i>Does not offer discount</i>	<i>Offers discount</i>
Firm B	<i>Does not offer discount</i>	Firm A profit = \$90,000 Firm B profit = \$90,000	Firm A profit = \$120,000 Firm B profit = \$70,000
	<i>Offers discount</i>	Firm A profit = \$70,000 Firm B profit = \$120,000	Firm A profit = \$80,000 Firm B profit = \$80,000

- _____ 4. **Refer to Table 17-25.** The dominant strategy
- for both firms is to offer the discount.
 - for both firms is to not offer the discount.
 - for firm A is to offer the discount. The dominant strategy for firm B is to not offer the discount.
 - for firm A is to not offer the discount. The dominant strategy for firm B is to offer the discount.
- _____ 5. **Refer to Table 17-25.** At the Nash equilibrium, how much profit will Firm A earn?
- \$120,000
 - \$90,000
 - \$80,000
 - \$70,000
- _____ 6. Which of these situations produces the largest profits for oligopolists?
- The firms reach a Nash equilibrium.
 - The firms reach the monopoly outcome.
 - The firms reach the competitive outcome.
 - The firms produce a quantity of output that lies between the competitive outcome and the monopoly outcome.

Figure 17-1



7. Refer to Figure 17-1. Suppose this market is served by a duopoly in which each firm faces the marginal cost curve shown in the diagram. The marginal revenue curve that a monopolist would face in this market is also shown. Which of the following statements is true?
- The total output in this market will likely be 2 units when the market is served by a duopoly.
 - The price in this market will likely be \$6 when the market is served by a duopoly.
 - The total revenue to each firm will likely be more than \$16 when the market is served by a duopoly.
 - The total output in this market will likely be less than 4 units when the market is served by a duopoly.