First Exam

Write all answers in your blue book and show all work there. Return your exam in your blue book.

16 pts.
1) a) Explain how differences in ownership and control can affect the profitability of a corporation and,
b) explain how the issue in part a) is sometimes the reason for a merger.

16 pts.
2) Briefly explain economies of scale and scope and explain how they affect merger activity and market concentration.

16 pts.
3) a) Draw a well-labeled two frame diagram showing a competitive market and a typical firm earning an economic profit.
b) Can this position be a long run equilibrium? Why?
c) If we view the firm’s demand curve as a residual demand curve, is it really perfectly elastic? Explain.

16 pts.
4) a) Draw a well-labeled diagram of a monopoly without much monopoly power or profit.
b) Shade areas in your diagram to show DWL and profit. Sometimes profit is DWL, explain how this can be.

12 pts.
5) Are monopolies common? Explain. What example can you think of? What created it?

24 pts.
6) a) Use a well-labeled diagram to show the vulnerability of a cartel to cheating.
b) Describe one way that cartels in the past have tried to enforce their agreements.
c) List three aspects of the current economic environment that make collusion difficult.
d) Do many firms try to fix prices. Explain.

I have neither given nor received unfair aid on this test nor am I aware of anyone else who has.