

First Exam

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

16 pts.

1) Briefly describe the difference between economies of scale and scope. How are they important when mergers are considered? Are economies of scale likely to be important in conglomerate mergers? Explain.

16 pts.

- 2) a) Use a two-frame diagram to illustrate a short run and long run equilibrium in a competitive market.
- b) Demonstrate either graphically or numerically that the competitive firm's demand curve is highly elastic, but not really perfectly elastic.

16 pts.

- 3) a) Draw a well-labeled diagram showing the monopoly profit maximizing price and quantity.
- b) What is the approximate value of the Lerner Index based on your diagram?
- c) Show the deadweight loss, due to monopoly pricing in your diagram.

16 pts

- 4) a) Use a well-labeled two frame diagram to show the demand for a dominant firm.
- b) Show the price and quantity for the dominant firm and the fringe.
- c) Does the model that you chose allow for entry of new firms? Explain. And explain how the model changes if you change your assumption.

20 pts

5) a) Use a well-labeled two frame diagram to show the temptation to cheat in a cartel.

Give an example of cartel that has had trouble with cheating.

b) Is a cartel likely to succeed if the number of firms is large? Explain.

c) Is a cartel likely to succeed if the cartel must hide from legal authority? Explain.

d) Is a cartel likely to succeed if the product is differentiated? Explain.

16 pts

6) a) If $Q_D = 1000/P$, what is the elasticity of demand and MR? Explain.

b) If $TC = 500$ at all Q up to a capacity of 10, what is MC up to that capacity. Explain.

c) What quantity would you want to produce, if any, if the a and b part functions apply?

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