

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) Give and briefly explain two common reasons why firms would want to merge.
- b) Give and briefly explain two common reasons why firms would not want to merge.

18 pts.

- 2) a) Either draw a diagram or use equations to show a residual demand curve for a firm when there is a competitive fringe.
- b) Say if the elasticity of demand is high or low for your firm in part a and explain why.

18 pts.

- 3) a) If a market is efficient, what does that mean?
- b) Draw a two frame diagram of a competitive market showing the efficiency that you describe in part a.

16 pts

- 4) a) Use a diagram to show the DWL and rent associated with a monopoly.
- b) What do studies show about the size of these problems? Is rent (or profit) just a transfer or is it waste? Why?

16 pts

5) What creates and maintains monopolies? Name and briefly describe three things.

16 pts

6) a) Name and briefly describe three factors that facilitate the creation and enforcement of a cartel.

b) Are cartels legal? Explain. Are all cartels subject to the law? Explain. Say how the law interacts with your part a factors to affect the success of a cartel.

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

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