1. An oligopolistic industry is characterized by all of the following except
   A) existence of entry barriers.
   B) the possibility of reaping long run economic profits.
   C) firms pursuing aggressive business strategies, independent of rivals' strategies.
   D) production of standardized products.

2. An oligopolist differs from a perfect competitor in that
   A) there is cutthroat competition in perfect competition but little competition in oligopoly because firms have significant market power.
   B) firms in an oligopoly do not produce homogeneous products while firms in perfect competition do.
   C) the market demand curve for a perfectly competitive industry is perfectly elastic but it is downward-sloping in an oligopolistic industry.
   D) there are no entry barriers in perfect competition but there are entry barriers in oligopoly.

3. Which of the following is not a characteristic of oligopoly?
   A) the ability to influence price
   B) a small number of firms
   C) low barriers to entry
   D) interdependent firms

4. A characteristic found only in oligopolies is
   A) break even level of profits.
   B) interdependence of firms.
   C) independence of firms.
   D) products that are slightly different.

5. Oligopolies exist and do not attract new rivals because
   A) of competition.
   B) of barriers to entry.
   C) the firms keep profits and prices so low that no rivals are attracted.
   D) there can be no product differentiation.
6. Which of the following is not a barrier to entry?
A) an inelastic demand curve  
B) economies of scale  
C) ownership of a key input  
D) a patent

7. Economies of scale will create a barrier to entry in an oligopoly industry when
A) a firm's minimum efficient scale occurs where long-run average total costs are constant.  
B) the typical firm's long-run average total cost curve reaches a minimum at a level of output that is a large fraction of total industry sales.  
C) the typical firm's long-run average total cost curve reaches a minimum at a level of output that is a small fraction of total industry sales.  
D) the industry's four-firm concentration ratio is less than 40 percent.

8. Economies of scale can lead to an oligopolistic market structure because
A) if larger firms have lower average costs, new small entrants will not be able to produce at the low costs achieved by the big established firms.  
B) if economies of scale are insignificant, only a few firms are able to produce at the low costs achieved by the big established firms.  
C) a few firms can force rivals to produce at low levels of output.  
D) a few firms can use high profits to keep out new entrants.

9. An example of a government-imposed barrier to entry gives a firm the exclusive right to a new product for a period of 20 years from the date the product is invented. This entry barrier is known as
A) a copyright.  
B) a patent.  
C) an exclusive marketing agreement.  
D) a tariff.

10. The study of how people make decisions in situations where attaining their goals depends on their interactions with others is called
A) Nash equilibrium.  
B) the prisoner's dilemma.  
C) game theory.  
D) dominant strategy equilibrium.
11. All of the following are characteristics of game theory except
A) rules that determine what actions are allowable.
B) payoffs that are the results of the interaction among players' strategies.
C) strategies that players employ to attain their objectives.
D) independence among players.

12. A dominant strategy
A) is one that is the best for a firm, no matter what strategies other firms use.
B) is one that a firm is forced into following by government policy.
C) involves colluding with rivals to maximize joint profits.
D) involves deciding what to do after all rivals have chosen their own strategies.

13. What is a prisoner's dilemma?
A) a game that involves no dominant strategies.
B) a game in which prisoners are stumped because they cannot communicate with each other.
C) a game in which players act in rational, self-interested ways that leave everyone worse off.
D) a game in which players collude to outfox authorities.

14. Which of the following is an example of a way in which a firm in oligopoly can escape the prisoner's dilemma?
A) producing more of its product.
B) advertising that it will match its rival's price.
C) reneging on a previous tacit agreement with rival firms to charge identical high prices.
D) ignoring the pricing decisions of the other firms.

15. A cartel is
A) a temporary storage facility for automobiles.
B) a group of firms that enter into an informal agreement to fix prices to maximize joint profits.
C) a group of firms that enter into a formal agreement to fix prices to maximize joint profits.
D) an example of a group of firms that collectively regulate a competitive industry.
16. Refer to the above table. Does Alistair have a dominant strategy and if so, what is it?
A) Yes, Alistair should increase its advertising budget.
B) Yes, Alistair should keep its advertising budget as is.
C) There are two dominant strategies: if Baine increases its advertising budget, then Alistair's best bet is to keep its budget the same but if Baine does not increase its spending then Alistair should raise its advertising budget.
D) No, there is no dominant strategy.

17. Refer to the above table. Does Baine have a dominant strategy and if so, what is it?
A) Yes, Baine should increase its advertising budget.
B) Yes, Baine should keep its advertising budget as is.
C) There are two dominant strategies: if Alistair increases its advertising budget, then Baine's best bet is to keep its budget the same but if Alistair does not increase its spending then Baine should raise its advertising budget.
D) No, there is no dominant strategy.

18. Refer to the above table. What is the Nash equilibrium in this game?
A) There is no Nash equilibrium.
B) Baine increases its advertising budget, but Alistair does not.
C) Alistair increases its advertising budget, but Baine does not.
D) Both Alistair and Baine increase their advertising budgets.

Key 1-8
2. D 11. D 16. A
3. C 12. A 17. A
6. A
7. B
8. A
9. B
Refer to the above figure. Uniguest, Inc. is a company that provides PCs with internet access and touch-sensitive screens to hotels. Suppose the Hard Rock Hotel and Casino in Las Vegas informs Uniguest that it is considering installing these systems in its hotel rooms. The Hard Rock expects to be able to charge higher prices for these rooms if it installs Uniguest's systems in its rooms. The two companies begin bargaining over what price the Hard Rock will pay Uniguest for its systems, and the decision tree shown above illustrates this bargaining game. Note that the profit figures listed in the decision tree are additional profits for the Hard Rock and total profits for Uniguest.

a. Suppose the Hard Rock offers Uniguest $1,200 per system. Will Uniguest accept or reject this offer? Why?
b. Suppose the Hard Rock offers Uniguest $800 per system. Will Uniguest accept or reject this offer? Why?
c. Suppose Uniguest attempts to obtain a favorable outcome from the bargaining by telling the Hard Rock it will reject an $800-per-system offer. If the Hard Rock does not believe the threat is credible, what will it do? Why? What will Uniguest do? Why?

Answers:

a. If the Hard Rock offers Uniguest $1,200 per system, Uniguest will accept the offer because its total profit will increase from $1 million to $1.6 million.
b. If the Hard Rock offers Uniguest $800 per system, Uniguest will accept the offer because its total profit will increase from $1 million to $1.2 million.
c. If the Hard Rock does not believe the threat is credible, it will offer $800 per system and Uniguest will accept the offer, because its profit will still increase from $1 million to $1.2 million.