Quiz #6 -- November 30, 2017

1. A rock climbing school faces two demand curves. The demand by local residents is $Q = 400 - 0.5P$, and the demand by nonlocal residents is $Q = 500 - 0.5P$. The marginal cost of serving either local or nonlocal residents is constant at $100. If the rock-climbing school segments the market, it will charge local and nonlocal residents a price of ______ and ______, respectively.
   A) $600; $650   B) $400; $800   C) $275: $325   D) $450; $550

2. Price discrimination is the practice of charging:
   A) the same price for different goods in different geographical locations.
   B) different prices to different customers for the same good.
   C) high prices for products with high marginal costs and low prices for products with low marginal costs.
   D) different prices for different goods.

Use the following to answer question 3.

Table 10.5

Consumer Valuations for Two Software Programs		
	Statistical Program	**Graphing Program**
Nicky	$400	$50
Vince	300	80

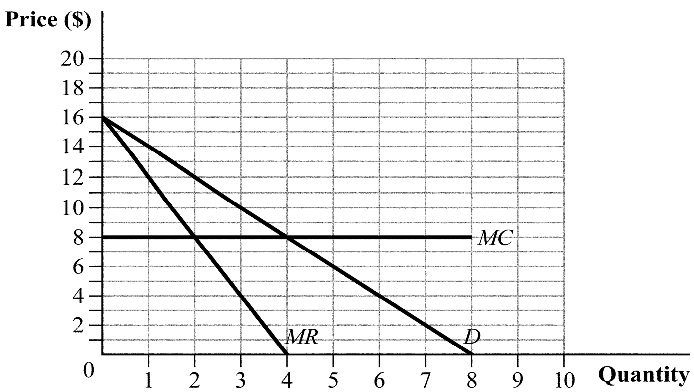
3. (Table 10.5) Assume that the marginal cost of producing software is zero. If the firm priced and sold each program separately, it would earn total revenues of _____, while a pure bundling strategy would generate the firm total revenues of _____.
   A) $450; $900   B) $700; $760   C) $600; $660   D) $380; $450

4. Which of the following is NOT a feature of Cournot competition?
   A) Firms sell identical products.
   B) Firms compete by choosing a quantity to produce.
   C) All goods sell at the same price.
   D) One firm sets its quantity to produce before the other firm.

5. Suppose that two firms are competing on price. The firms produce identical goods, and the marginal cost of each firm is constant at $15. If one firm is charging a price of $18, the other firm should:
   A) raise its price to $18.01.
   B) also charge $18.
   C) cut its output to raise the market price well above $18.
   D) charge $17.99.

Use the following to answer question 6.

Figure 10.11



6. (Figure 10.11) If a firm uses a two-part tariff pricing strategy, the entrance fee is ______ and the per-unit price is ______.
   A) $12; $8 B) $16; $8 C) $8; $12 D) $8; $16

7. Which of the following requirements is necessary to practice price discrimination?

   I. The firm must have market power.
   II. The firm can prevent arbitrage of its product.
   III. The firm faces a perfectly elastic demand curve.
   IV. The firm operates in a perfectly competitive industry.

   A) II, III, and IV B) I, II, and III C) III and IV D) I and II

Use the following to answer question 8.

Table 10.4

Scenario A		
	Golf Channel	**History Channel**
Harry	$10	$7
Stan	$10	$7

Scenario B		
	Golf Channel	**History Channel**
Shirley	$12	$15
Alec	$8	$10

Scenario C		
	Golf Channel	**History Channel**
Mike	$9	$4
Travis	$7	$8

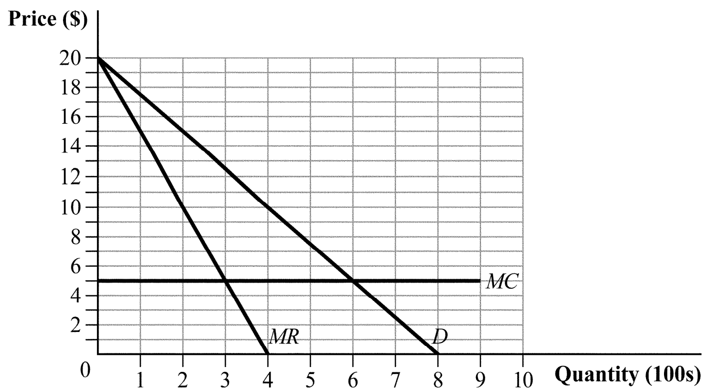
Scenario D		
	Golf Channel	**History Channel**
Amy	$6	$8
Pam	$10	$11

8. (Table 10.4) The table shows consumer valuations (maximum willingness to pay per month) for two cable television networks. In which of the scenarios would a cable television company experience an increase in producer surplus from using a bundling strategy as opposed to selling channel access separately?
A) Scenario D B) Scenario A C) Scenario C D) Scenario B

9. A Nash equilibrium occurs when:
A) an oligopoly industry is characterized by excess supply, despite a market-clearing price.
B) each firm is doing the best it can, conditional on the actions taken by other firms.
C) an oligopoly industry is characterized by excess demand, despite a market-clearing price.
D) each firm is doing the worst it can, conditional on the actions taken by other firms.

Use the following to answer question 10.

Figure 11.1



10. (Figure 11.1) The graph depicts the market demand curve for a two-firm industry. If the two firms collude and evenly split the market output, how much output will each firm produce?
    A) 200 units B) 150 units C) 300 units D) 400 units

Answer Key - F17-6

1. D
2. B
3. B
4. D
5. D
6. B
7. D
8. C
9. B
10. B