

UNIVERSITY OF NORTHUMBRIA AT NEWCASTLE

DIVISION OF ECONOMICS

EC480 The Economics of Competition: A European Perspective

Level 2

Thursday  
30<sup>th</sup> November 2000

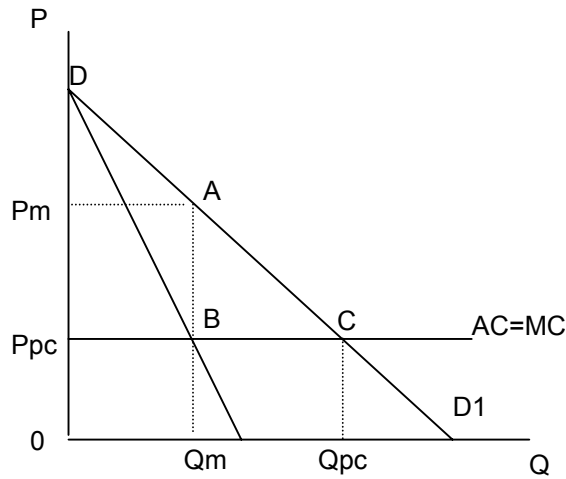
Time allowed:  
1 hour

Instructions: 30 questions set.  
Candidates to answer all questions.  
All questions carry equal marks

1. Which of the following is not a necessary assumption for a perfectly competitive market structure?
  - A each seller has a homogenous product.
  - B there is perfect information among buyers and sellers.
  - C all firms have horizontal average cost curves.
  - D There is free entry and exit.
  
2. Which of the following best describes allocative efficiency?
  - A resources are allocated optimally over time.
  - B output costs are minimal.
  - C prices are equal to marginal cost.
  - D output is maximised and input costs minimised.
  
3. Which of the following statement best describes productive efficiency?
  - A prices are in line with marginal cost.
  - B output is maximised at minimum cost.
  - C that resources are allocated optimally over time.
  - D the cost of optimising output.

**P.T.O.**

The following diagram relates to questions 4 and 5.



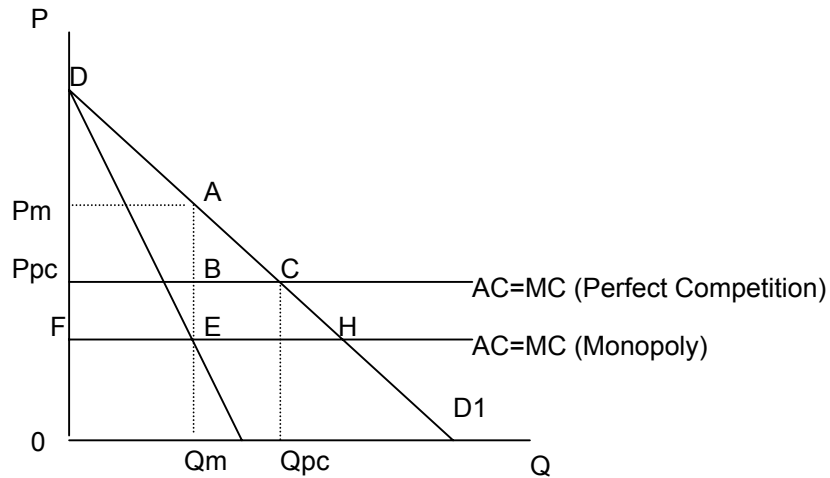
4. Which area is associated with monopoly welfare loss according to Harberger?

- A  $P_m A C P_{pc}$
- B  $A B C$
- C  $D A P_m$
- D  $C B Q_{pc} Q_m$

5. In the same diagram which area is associated with consumer surplus under monopoly?

- A  $D B P_{pc}$
- B  $D A P_m$
- C  $A B C$
- D  $C B Q_{pc} Q_m$

The following diagram refers to questions 6 and 7.



6. What is the productive efficiency gain from monopoly?
- A  $EFQ_mO$
  - B  $BCFG$
  - C  $P_{pc}BEF$
  - D  $FGQ_{pc}Q_m$
7. Using the same diagram what is the allocative efficiency loss from monopoly?
- A  $AEH$
  - B  $ABC$
  - C  $DAP_m$
  - D  $DCP_m$
8. What is meant by **normal** profit?
- A profit earned because of market power
  - B the profit earned where the distance between total revenue and total cost is greatest
  - C profit earned in normal times
  - D the profit that keeps the owner from exiting the business
9. Which of the following best describes a dominant strategy.
- A Strategy where the player chooses to maximise their payoff irrespective of what its opponent does.
  - B A strategy where the player chooses to maximise their payoff given what they anticipate their opponent is doing.
  - C A strategy where the dominant player maximises their payoff at the expense of the other.
  - D A strategy where the subordinate player tries to dominate by bluffing the other.

10. What is the Nash Equilibrium in the following diagram?

		Player 1	
		X	Y
Player 2	X	(35,35)	(70,30)
	Y	(30,70)	(15,15)

- A Player 1 chooses X, Player 2 chooses X
- B Player 1 chooses X, Player 2 chooses Y
- C Player 1 chooses Y, Player 2 chooses X
- D Player 1 chooses Y, Player 2 chooses Y

11. Assume the following payoffs (in £ millions per month) for the Prisoner's Dilemma game below.

		Green plc	
		High Price	Low Price
Blue plc	High Price	(5,5)	(1,6)
	Low Price	(6,1)	(3,3)

If the game were repeated 10 times which quadrant (assuming game theory rationality) would best indicate the equilibrium outcome at the end of period 10?

- A Green plc plays high price, Blue plc plays high price
- B Green plc plays high price, Blue plc plays low price
- C Green plc plays low price, Blue plc plays high price
- D Green plc plays low price, Blue plc plays low price

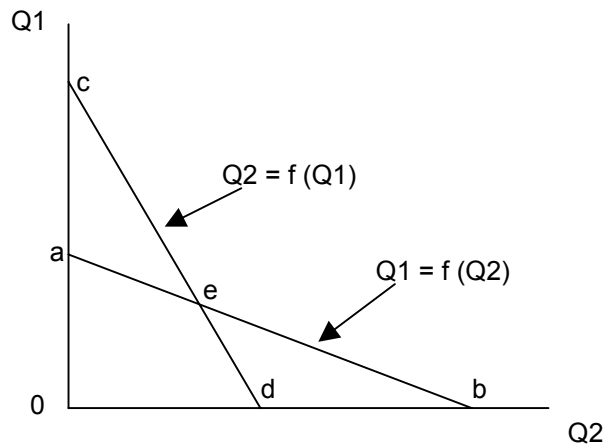
12. What do the initials SIC stand for in industrial economics?

- A Standard Industrial Category
- B Standard Income Category
- C Super Income Category
- D Standard Industrial Classification

13. What do the initials SCP stand for in industrial economics?

- A Structure Conduct Paradigm
- B Structure Conduct Performance
- C Standard Conduct Paradigm
- D Structure Classification Performance

The following diagram refers to questions 14 and 15.



14. Point e is known as a

- A Perfect Competition equilibrium.
- B Bertrand equilibrium.
- C Monopoly equilibrium.
- D Cournot equilibrium.

15. How do firm 1's profits increase?

- A As we move from a to b
- B As we move from b to a
- C As we move from c to d
- D As we move from d to c

16. Assuming that an industry has a linear downward sloping demand curve and all firms face the same constant marginal cost, which of the following statements is true when comparing a monopolistic market structure with that of perfect competition?
- A. the price under monopoly is half that of perfect competition.
  - B. the output under perfect competition is twice that of monopoly.
  - C. the perfectly competitive firm will earn abnormal profit.
  - D. the price under monopoly is half that of perfect competition.
17. A profit maximising monopolist sets
- A. price equal to average cost.
  - B. price equal to marginal cost.
  - C. price equal to marginal cost plus a pro-rata share of overhead.
  - D. marginal revenue equal to marginal cost.
18. Which of the following conditions is not likely to lead to the formation of collusive behaviour?
- A. There are three firms in an industry.
  - B. All firms in the industry have identical costs.
  - C. There are constant technical developments in the industry.
  - D. Each firm in the industry sells a homogenous product.
19. Statutory regulation of transactions within an individual industry is more likely when there :
- A. Are well defined goods and services.
  - B. Is full information among all parties to the exchange.
  - C. Are numerous small businesses competing against each other.
  - D. Are monopoly structures.
20. Which of the following best describes adverse selection?
- A. A process by which individuals have substantial resources devoted to the exchange process and need to make a profit or they will be adversely affected.
  - B. A post-contractual problem that may result because participants to the exchange process have information that allows them to act in an opportunistic manner.
  - C. A process by which an undesirable population of buyers or sellers with an information bias are more likely to participate in voluntary exchange.
  - D. A contractual problem that results because of cartel like behaviour by one or other of the participants to the exchange.

21. Which of the following does not describe the role of self-regulating bodies?
- A. They are empowered by statute to act independently of government.
  - B. They regulate entry to their profession.
  - C. They establish rules and enforce discipline.
  - D. They regulate standards of behaviour of their members.
22. Assume that in a population of plumbers 85% produce high quality work and 15% poor quality work. The costs (including a normal profit to the plumber) for a 'standard job' are £20 for the high quality plumber and £10 for the poor quality plumber. This also represents the maximum and minimum willingness to pay for a customer. So what is the average willingness to pay?
- A. £16.50
  - B. £17.50
  - C. £18.50
  - D. £19.50
23. The plumbers set up their own institute to signal high quality and screen membership by using a practical test. Now assume 95% of the high quality plumbers pass the practical test and 12% of the poor quality are successful in joining. If you call out a non-member of the institute, what is the probability of this person being a high quality plumber?
- A. 0.978
  - B. 0.324
  - C. 0.244
  - D. 0.846
24. Which of the following describes the 5 firm concentration ratio?
- A. The market share of each firm in the industry.
  - B. The market share of the top 5 firms in the industry.
  - C. The sum of squared market shares for each firm in the industry.
  - D. The squared market shares of the top 5 firms in the industry plus imports into the industry.
25. Consider the following propositions. Knowledge is only partial. The competitive process moves the economy towards equilibrium but this situation will never be attained.  
These statements best reflect the views of:-
- A. Williamson in his transaction cost critique
  - B. The Austrian School
  - C. The contestable markets hypothesis
  - D. None of the above

26. If the cross price elasticity of demand for a product is strongly positive we can assert that
- A. this product is very substitutable
  - B. this product is a complement
  - C. this industry is monopolised by one firm
  - D. this industry has no complements or substitutes
27. Which of the following statements best describes Axelrod's portrayal of Tit-for-Tat?
- A. Nice, defensible and sensible
  - B. Defensible, provokable and sensible
  - C. Nice, provokable and forgiving
  - D. Defensible, forgiving and sensible
28. Assume a Cournot duopoly where each firm faces a linear downward sloping market demand curve and has constant marginal costs. Which of the following statements is true?
- A. Output is one-third of the perfectly competitive output.
  - B. Output is one half of the perfectly competitive output.
  - C. Output is two-thirds of the perfectly competitive output.
  - D. Output is three-quarters of the perfectly competitive output.
29. Which of the following best describes the activities of a cartel?
- I. Four major betting shop chains secretly agree to keep the same opening hours.
  - II. Two major companies, Tate & Lyle and British Sugar admit to price fixing over two years.
  - III. Townsend Thorenson and Sealink fix prices on the Scotland-Northern Ireland route.
  - IV. 157 price fixing agreements operated amongst companies making asphalt and macadam.
- A. I, II and III only
  - B. All of them
  - C. None of them
  - D. II and IV only
30. Which of the following best describes a sunk cost?
- A. A large cost that varies with output
  - B. An investment in an asset that has no alternative use value.
  - C. An investment in a large fixed cost that has alternative use value.
  - D. A depreciating asset.