

Chapter 26

Oligopoly and Strategic Behavior

26.1 Oligopoly

1) Which of the following does NOT help explain why oligopolies exist?

- A) Economies of scale
- B) Mergers
- C) Product homogeneity
- D) Barriers to entry

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

2) Which of the following is a characteristic of oligopoly?

- A) Easy entry and exit
- B) Many firms
- C) Strategic dependence
- D) None of the above

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

3) A merger between firms that are in the same industry is called a

- A) conglomerate merger.
- B) horizontal merger.
- C) vertical merger.
- D) none of the above.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

4) A merger between firms in which one firm purchases an input from the other is called a

- A) conglomerate merger.
- B) horizontal merger.
- C) vertical merger.
- D) none of the above.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: New

5) The measurement of industry concentration which calculates the percentage of all sales contributed by a specific number of leading firms is called the

- A) Herfindahl–Hirschman Index.
- B) concentration ratio.
- C) producer price index.
- D) P/E ratio.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

6) Strategic behavior and game theory are features of which market structure?

- A) Perfect competition
- B) Monopoly
- C) Monopolistic competition
- D) Oligopoly

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

7) In oligopoly, any action by one firm to change price, output, or quality causes

- A) a reaction by other firms.
- B) no reaction from the other firms.
- C) a profit gain for the other firms.
- D) loss of market share by the acting firm.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

8) Which of the following is NOT a characteristic of oligopoly firms?

- A) Strategic dependence
- B) Product differentiation
- C) Non-price competition, such as advertising and promotions
- D) Perfectly elastic demand curves

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

9) Which one of the following industries could be classified as an oligopoly?

- A) Tobacco production
- B) Retailing
- C) Farming
- D) Fast food restaurants

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

10) Which of the following is most likely to be sold in an oligopoly market?

- A) Pizza
- B) Cell phone service
- C) Electricity
- D) Computer software

Answer: B

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: New

11) Which of the following is NOT a necessary condition for oligopoly?

- A) Barriers to entry
- B) Strategic dependence of firms
- C) Differentiated products
- D) Either a small number of firms or market dominance by a small number of firms

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

12) Managers in oligopoly firms must

- A) eliminate any barriers to entry if they hope to make short-run profits.
- B) advertise heavily in order to differentiate their product.
- C) anticipate the reaction of rival firms.
- D) establish many varieties of their products to cover the spectrum of consumer tastes.

Answer: C

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

13) In an oligopolistic market, each firm

- A) has a constant marginal cost.
- B) faces a perfectly elastic demand function.
- C) must consider the reaction of rival firms when making a pricing or output decision.
- D) produces at minimum average cost in the long run.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

14) An oligopoly is a market situation in which

- A) there are many firms producing differentiated products.
- B) there is a single firm producing several varieties of a product.
- C) all the sellers act independently of the others.
- D) there are very few sellers and they recognize their strategic dependence on one another.

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

15) Which of the following is NOT a common characteristic of oligopoly?

- A) strategic dependence among firms in the industry
- B) product differentiation
- C) barriers to entry
- D) marginal cost pricing.

Answer: D

Diff: 2

Topic: 26.1 Oligopoly

Question Status: Previous Edition

16) If a firm is an oligopolist, which is NOT true?

- A) It must pay attention to other firms' prices.
- B) It is one of a relatively small number of firms dominating its industry.
- C) It can sell all the units it wants at the going market price.
- D) It is engaged in a strategic game.

Answer: C

Diff: 2

Topic: 26.1 Oligopoly

Question Status: Previous Edition

17) The most common reason for the existence of oligopolies is

- A) ease of entry.
- B) economies of scale.
- C) diseconomies of scale.
- D) advertising.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

18) Monopolies and oligopolies both erect barriers to entry through the use of

- A) price cutting.
- B) patents.
- C) franchising.
- D) advertising.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

19) Oligopolies can result from any of the following EXCEPT

- A) economies of scale.
- B) vertical mergers.
- C) government regulation.
- D) diseconomies of scale.

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

20) When U.S. Steel, a steel producer, bought control of iron ore companies at the beginning of the 20th century, the company was initiating

- A) a horizontal merger.
- B) a vertical merger.
- C) a cartel.
- D) an expropriation.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

21) If Ford Motor Company and General Motors Corporation were to merge, this would represent

- A) a vertical merger.
- B) a horizontal merger.
- C) a cartel.
- D) an up-and-down merger.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

22) Which of the following combinations would constitute a vertical merger?

- A) General Motors and Bridgestone Tire Company
- B) General Motors and Ford Motor Company
- C) Philip Morris and RJ Reynolds
- D) Philip Morris and Barnes & Nobles Booksellers

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

23) In general, horizontal mergers will

- A) increase the number of firms in an industry.
- B) decrease the number of firms in an industry.
- C) increase competition in an industry.
- D) reduce economic profits in an industry.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

24) The combining of First Union National Bank and The National Bank of Memphis is an example of

- A) a vertical merger.
- B) a horizontal merger.
- C) a downstream formation.
- D) a conglomerate merger.

Answer: B

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Reflective thinking skills

Question Status: Previous Edition

25) The joining of firms that are producing or selling a similar product is

- A) a conglomerate merger.
- B) a horizontal merger.
- C) a vertical merger.
- D) always an illegal merger.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

26) If the United States' largest bakery buys an agricultural firm that specializes in growing wheat, we would have an example of

- A) a horizontal merger.
- B) a vertical merger.
- C) a monopoly.
- D) excessive product differentiation.

Answer: B

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Reflective thinking skills

Question Status: Previous Edition

27) A horizontal merger involves

- A) the joining of two firms at different stages of the production process.
- B) the separation of management from ownership.
- C) the joining of two firms selling similar products.
- D) the exchange of debt for stock.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

28) How do economies of scale contribute to the development of an oligopoly?

- A) Economies of scale make it legally difficult for new firms to enter.
- B) Economies of scale make small-scale producers inefficient.
- C) Economies of scale are based on control of a key resource, without which other firms cannot enter an industry.
- D) Economies of scale are guaranteed when a patent is granted.

Answer: B

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

Four-Firm Concentration Ratios

Industry	Ratio (percent)
W	72
X	30
Y	84
Z	55

29) The most competitive industry of those presented in the above table is likely to be industry

- A) W.
- B) X.
- C) Y.
- D) Z.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

30) The most oligopolistic industry of those presented in the above table is likely to be industry

- A) W.
- B) X.
- C) Y.
- D) Z.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 31) Suppose an industry has total sales of \$25 million per year. The two largest firms have sales of \$6 million each, the third largest firm has sales of \$2 million, and the fourth largest firm has sales of \$1 million. The four-firm concentration ratio for this industry is

A) 36 percent. B) 60 percent. C) 50 percent. D) 25 percent.

Answer: B

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 32) Suppose a ten firm industry has total sales of \$35 million per year. The largest firm have sales of \$10 million, the third largest firm has sales of \$4 million, and the fourth largest firm has sales of \$2 million. If fifth through tenth largest firms combined have annual sales of \$12 million, the four-firm concentration ratio for this industry is

A) 45.7 percent. B) 80 percent.
C) 65.7 percent. D) none of the above.

Answer: C

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: New

- 33) Suppose a ten firm industry has total sales of \$35 million per year. The largest firm have sales of \$10 million, the third largest firm has sales of \$4 million, and the fourth largest firm has sales of \$2 million. If the rest of the industry has annual sales of \$12 million, the second largest firm has sales of

A) \$8 million. B) \$7 million.
C) \$4 million. D) none of the above.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: New

- 34) Suppose that an industry consists of 100 firms, and the top 4 firms have annual sales of \$1 million, \$1.5 million, \$2 million, and \$2.5 million, respectively. If the entire industry has annual sales of \$8.5 million, the four-firm concentration ratio is approximately

A) 82 percent. B) 50 percent. C) 94 percent. D) 70 percent.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 35) The industry concentration ratio measures the
- A) value of the assets owned by the largest corporations in the market.
 - B) percentage of industry sales accounted for by the top four or eight firms.
 - C) difference between price and marginal cost for the largest firms in the industry.
 - D) degree of product differentiation in the market.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 36) If industry sales are \$2,000, and the top four firms have sales of \$170, \$140, \$100, and \$80, respectively, what will be the four-firm concentration ratio?
- A) 49 percent
 - B) 24.5 percent
 - C) 490 percent
 - D) 200/49

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 37) As the definition of products narrows (i.e., becomes more specific), the concentration ratio
- A) is not valid.
 - B) tends to decrease.
 - C) tends to increase.
 - D) does not change in any predictable manner.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 38) A concentration ratio gives
- A) the average size of the firms in an industry.
 - B) the total sales of four or eight of the mid-sized firms in the industry.
 - C) the percentage of all sales contributed by the four or eight largest firms in the industry.
 - D) the sales of the four largest firms in the industry divided by the sales of the eight largest firms in the industry.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

Firm	Annual Sales	Firm	Annual Sales
A	\$1000	G	\$800
B	900	H	1200
C	120	I	1050
D	75	J	90
E	50	K	75
F	40	L	600

- 39) According to the above table, the four-firm concentration ratio of this industry is
 A) 69.2 percent. B) 35.1 percent. C) 66.7 percent. D) 67.5 percent.

Answer: A

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 40) According to the above table, if the fourth and fifth largest firms in the industry merge, the four-firm concentration ratio in the industry will be
 A) 82.5 percent. B) 35.8 percent. C) 69.0 percent. D) 84.1 percent.

Answer: A

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Revised

- 41) According to the above table, the eight-firm concentration ratio of this industry is
 A) 94.5 percent. B) 96.0 percent. C) 92.5 percent. D) 82.5 percent.

Answer: B

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: New

- 42) There are 30 firms in an industry. What happens to that industry's four-firm concentration when the third- and fourth-largest firms merge?
 A) Nothing, because their shares are already included in the concentration calculation.
 B) The industry's concentration ratio will fall.
 C) The industry's concentration ratio will increase.
 D) It is impossible to know without more information.

Answer: C

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 43) Over the past several decades, U.S. firms have faced more competition from overseas firms. Does this have any impact on the market power of U.S. oligopoly firms?
- A) No, because domestic firms in oligopoly markets are always so dominant that overseas producers have little or no impact on those markets.
 - B) No, because the United States government has effectively blocked all imports that might compete with domestic firms in oligopoly industries.
 - C) Yes, competition from overseas firms can substantially limit domestic firms' market power.
 - D) There is no way to know.

Answer: C

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 44) Which of the following is a characteristic of oligopoly?
- A) Mutual firm independence
 - B) Zero economic profits in the short run
 - C) Marginal cost pricing
 - D) Only a few firms in the industry

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 45) Oligopoly is a situation when there
- A) is one firm in the industry that is fairly large.
 - B) are a few large firms in the industry.
 - C) are too many firms in the industry and there is excess capacity.
 - D) is one giant firm and many smaller firms forming a competitive fringe.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 46) Which of the following is true of an oligopoly?
- A) They engage in nonprice competition.
 - B) They do not react to actions of their competitors.
 - C) Each firm produces a small portion of the total output.
 - D) Firms do not care what their competitors do.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 47) Which of the following is **not** true of an oligopoly?
- A) They advertise their product.
 - B) The firms recognize their interdependence.
 - C) A few firm account for a large portion of the total output.
 - D) Firms are price takers.

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 48) When managers in oligopolistic firms make decisions that affect output or price, they must
- A) also be sure they erect barriers to entry to prevent new entrants from affecting their plans.
 - B) anticipate the reactions of their rivals and plan accordingly.
 - C) register with the Antitrust Division of the Department of Justice.
 - D) inform the regulators of their industry about their plans.

Answer: B

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 49) A situation in which one firm's actions with respect to price, quality, advertising and related changes may be strategically countered by the reactions of one or more other firms in the industry is known as
- A) strategic dependence.
 - B) economies of scale.
 - C) the concentration ratio.
 - D) barriers to entry.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 50) All of the following are reasons for an oligopoly to occur EXCEPT
- A) economies to scale.
 - B) barriers to entry.
 - C) independence among firms.
 - D) merger.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 51) The existence of economies of scale is one reason oligopolies exist because
- A) a firm is able to increase price leading to increased profits.
 - B) the marginal cost decreases as output increases.
 - C) of strategic dependence.
 - D) as output increases average total cost decreases leading to large-scale firms.

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

52) Which of the following is NOT a reason why some industries are oligopolies?

- A) Economies of scale
- B) Barriers to entry
- C) Strategic independence
- D) Mergers

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

53) Horizontal merger occurs when

- A) two firms merge where one had sold its output to the other as an input.
- B) the merger moves the combined firm onto the horizontal portion of its long-run average cost curve.
- C) two firms merge where each is about the same size.
- D) two firms producing a similar product merge.

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

54) Vertical merger occurs when

- A) two firms merge where one had sold its output to the other as an input.
- B) the merger moves the combined firm onto the horizontal portion of its long-run average cost curve.
- C) two firms merge where each is about the same size.
- D) two firms producing a similar product merge.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

55) Joe's hotdog stand merges with a company that supplies the condiments to Joe's. This is an example of

- A) conglomerate merger.
- B) concentration ratio.
- C) vertical merger.
- D) horizontal merger.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

56) Straight Cut beauty salon merges with Clean-Cut beauty salon. This is an example of

- A) conglomerate merger.
- B) concentration ratio.
- C) vertical merger.
- D) horizontal merger.

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

57) Which of the following is an example of a vertical merger?

- A) Northeastern Illinois University merging with McDonald's.
- B) Northeastern Illinois University merging with a training academy for new professors.
- C) Northeastern Illinois University merging with Roosevelt University.
- D) Northeastern Illinois University going from a public to a private university.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

58) Which of the following is an example of a horizontal merger?

- A) Northeastern Illinois University merging with McDonald's.
- B) Northeastern Illinois University merging with a training academy for new professors.
- C) Northeastern Illinois University merging with Roosevelt University.
- D) Northeastern Illinois University going from a public to a private university.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

59) The joining of firms that are producing or selling a similar product is known as

- A) a conglomerate merger.
- B) a horizontal merger.
- C) a vertical merger.
- D) economies to scale.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

60) The joining of a firm with another to which it sells an output or from which it buys an input is known as

- A) a conglomerate merger.
- B) a horizontal merger.
- C) a vertical merger.
- D) economies to scale.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

61) A concentration ratio measures

- A) the average size of the firms in the industry.
- B) the sales of the three largest firms in the industry minus the costs of these three largest firms in the industry.
- C) the share of industry sales accounted for by the largest firms in the industry.
- D) the excess capacity found in a particular oligopolistic industry.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

62) The percentage of all sales contributed by the leading four or leading eight firms in an industry is known as

- A) a horizontal merger. B) a vertical merger.
C) economies to scale. D) the concentration ratio.

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

63) Which of the following statements about concentration ratios is correct?

- A) A high concentration ratio indicates that the industry is a monopoly.
B) A high concentration ratio indicates that the industry is monopolistically competitive.
C) A high concentration ratio suggests that the industry is characterized by strategic independence.
D) A high concentration ratio suggests that the industry is characterized by strategic dependence.

Answer: D

Diff: 3

Topic: 26.1 Oligopoly

Question Status: Previous Edition

64) A concentration ratio is used to

- A) determine whether a market structure is oligopoly.
B) determine the importance of labor in the production process.
C) determine the degree of homogeneity in the market.
D) see if a firm qualifies for federal assistance.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

Firm	Annual Sales	Firm	Annual Sales
A	\$1000	G	\$800
B	800	H	1500
C	220	I	1050
D	75	J	90
E	50	K	75
F	40	L	300

65) Refer to the above table. The four-firm concentration ratio is

- A) 85.8 percent. B) 75 percent. C) 72.5 percent. D) 59.2 percent.

Answer: C

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

66) Refer to the above table. The eight-firm concentration ratio is

- A) 100 percent. B) 96 percent. C) 94.5 percent. D) 87.2 percent.

Answer: B

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

67) In a 50-firm industry, two of the smallest firms merge. Yet the 4-firm concentration ratio and the 8-firm concentration ratio did not change. All things considered, we can say that the industry has

- A) moved closer to pure competition because the number of firms decreased.
B) moved farther away from competition because the number of firms decreased.
C) experienced no change in competition even though the number of firms decreased.
D) to be identified first; otherwise there is no way to tell.

Answer: B

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

Firm	Annual Sales (\$ million)
1	350
2	200
3	150
4	100
5	75
6 through 30	50
Total	925

68) Refer to the above table. The four-firm concentration ratio is

- A) 86.5 percent. B) 33.3 percent. C) 13.3 percent. D) 11.6 percent.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

69) A market structure characterized by a small number of interdependent sellers is called a(n)

- A) monopoly. B) monopolistic competition.
C) monopsony. D) oligopoly.

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 70) If a retail food chain merged with a meat packing company, this would be an example of a
- A) horizontal merger.
 - B) conglomerate merger.
 - C) vertical merger.
 - D) diagonal merger.

Answer: C

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 71) The recent merger of Southwest Bell (SBC) and AT&T companies is an example of a
- A) horizontal merger.
 - B) vertical merger.
 - C) consolidation merger.
 - D) cooperative merger.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 72) Which of the following is NOT a cause for an oligopoly to exist?
- A) economies of scale
 - B) structural dependence
 - C) barriers to entry
 - D) horizontal mergers

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 73) Which of the following would best exemplify an oligopolistic industry?
- A) agriculture
 - B) large aircraft manufacturing
 - C) confections
 - D) retail convenience stores

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 74) Which of the following would best exemplify an oligopolistic industry?
- A) Local cable provider
 - B) Movie studios
 - C) Hamburger restaurants
 - D) Retail clothing stores

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Reflective thinking skills

Question Status: New

- 75) An oligopolistic industry is characterized by
- A) a small number of firms.
 - B) a large number of firms.
 - C) no interdependence.
 - D) no barriers to entry.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 76) There are fewer than half as many publishers of college textbooks in the United States now as a generation ago. Three companies alone account for almost two-thirds of the sale of new textbooks. This market situation characterized by very few sellers is known as
- A) an oligopoly.
B) perfect competition.
C) pure monopoly.
D) monopolistic competition.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 77) Oligopoly is a market situation in which
- A) there is no product differentiation.
 - B) there are very few sellers.
 - C) firms seldom react to price changes.
 - D) only homogeneous products are sold.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 78) Between World War II and the 1970s, three firms—General Motors, Chrysler, and Ford—produced and sold nearly all the output of the U.S. auto industry. These three firms had
- A) an oligopoly.
B) monopolistic competition.
C) colluded.
D) a pure monopoly.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 79) Which does NOT cause an industry that might otherwise be competitive to tend toward oligopoly?
- A) economies of scale
B) barriers to entry
C) mergers
D) strategic independence

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 80) The joining of firms that are producing or selling a similar product is
- A) competition by merger.
- B) a vertical merger.
- C) a horizontal merger.
- D) a hostile takeover.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 81) Based on the table below, the four-firm concentration ratio equals what percentage of annual sales?

Firm	Annual Sales (\$ millions)
1	20
2	30
3	5
4	5
5 through 100	40
Total	100

- A) 33 percent B) 40 percent C) 60 percent D) 100 percent

Answer: C

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

Firm	Annual Sales (\$ millions)
1	70
2	30
3	28
4	22
5	10
6 through 25	40
Total	200

- 82) Use the above table. If firms 4 and 5 merge, the four-firm concentration ratio will be
 A) 80 percent. B) 75 percent. C) 64 percent. D) 50 percent.

Answer: A

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 83) If a company that drilled for and produced oil acquired a firm which refined oil into gasoline, this would be referred to as a
 A) horizontal merger. B) vertical merger.
 C) conglomerate merger. D) reverse merger.

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 84) If Target were to merge with Wal-Mart, this would be referred to as a(n)
 A) horizontal merger. B) vertical merger.
 C) conglomerate merger. D) anti-competitive merger.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 85) If an industry has 25 firms that collectively have \$150 million in total sales and the top four firms in this industry account for \$90 million in sales, what is the concentration ratio of the top four firms in this industry?
 A) 42 percent B) 60 percent C) 70 percent D) 80 percent

Answer: B

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 86) If an industry has 25 firms that collectively have \$150 million in total sales and the top three firms in this industry account for \$78 million in sales and the fifth through twenty-fifth firms account for \$60 million in sales, what is the amount of sales for the fourth largest firm?
 A) \$12 million B) \$6 million
 C) \$18 million D) none of the above.

Answer: A

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: New

- 87) Which of the following is likely among the most concentrated industries in the United States?
 A) printing and publishing B) soft drinks
 C) tobacco products D) household vacuum cleaners

Answer: C

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 88) Which of the following is likely among the most concentrated industries in the United States?
 A) printing and publishing B) breakfast cereals
 C) primary aluminum D) computers

Answer: B

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Reflective thinking skills

Question Status: Previous Edition

89) All of the following are characteristics of an oligopoly EXCEPT

- A) diseconomies of scale over all ranges of output.
- B) small number of firms.
- C) high barriers to entry.
- D) interdependence.

Answer: A

Diff: 2

Topic: 26.1 Oligopoly

Question Status: Previous Edition

90) The situation of oligopoly suggests

- A) many firms compete in an industry.
- B) mergers have not occurred.
- C) interdependence among firms.
- D) no barriers to entry exist.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

91) One of the strongest reasons that oligopolies exist is due to

- A) the homogeneity of their products.
- B) marginal cost pricing.
- C) lowest cost production.
- D) economies of scale.

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

92) Economies of scale means that

- A) the average fixed cost curve slopes downward over its entire range.
- B) the four-firm concentration ratio is below 80.
- C) the long-run average total cost curve slopes downward over its entire range.
- D) the long-run total cost curve slopes downward over its entire range.

Answer: C

Diff: 2

Topic: 26.1 Oligopoly

Question Status: Previous Edition

93) The higher the concentration ratio is in an industry, the more likely it is that

- A) the industry is perfectly competitive.
- B) the market share of the smallest four firms is larger.
- C) the market share of the largest four firms is smaller.
- D) the industry has an oligopoly.

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 94) The number of firms in an oligopolistic industry
- A) must be less than 10.
 - B) must be less than 20.
 - C) must be small enough that firms are interdependent.
 - D) must be large enough for firms to be independent.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 95) The outputs of an oligopolistic industry
- A) can be homogeneous or differentiated.
 - B) must cost above \$100 on the market.
 - C) always have excise taxes imposed on them.
 - D) have no substitutes on the market.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 96) Oligopolistic industries are characterized by a
- A) few large firms and no barriers to entry.
 - B) large number of firms and no barriers to entry.
 - C) few large firms and substantial barriers to entry.
 - D) large number of firms and substantial barriers to entry.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 97) Economies of scale
- A) do not arise in oligopolistic industries.
 - B) can exist but are rare in oligopolistic industries.
 - C) can exist but fail to create barriers to entry in oligopolistic industries.
 - D) are commonplace and often a barrier to entry in oligopolistic industries.

Answer: D

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 98) Suppose an industry is composed of 10 firms. Each firm's share of total sales in the industry is 10 percent. If two of the firms merge, then the four-firm concentration ratio in the industry will
- A) remain unchanged.
 - B) decrease as there are fewer firms in the industry.
 - C) increase.
 - D) depend on the market condition faced by the industry.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 99) Suppose an industry is composed of 10 firms. Each firm's share of total sales in the industry is 10 percent. If two of the firms merge, then the four-firm concentration ratio in the industry is
- A) 40 percent.
 - B) 45 percent.
 - C) 50 percent.
 - D) unable to determine.

Answer: C

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: New

- 100) The merger of two pizza restaurant chains would be an example of
- A) a horizontal merger.
 - B) a vertical merger.
 - C) a conglomerate merger.
 - D) an independent merger.

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 101) If the four-firm concentration ratio for an industry is 84 percent, then
- A) each of the firms account for 21 percent of total sales.
 - B) the four largest firms in the industry account for 16 percent of the total sales.
 - C) the four largest firms in the industry account for 84 percent of the total sales.
 - D) the remaining firms in the industry accounts for 84 percent of the total sales.

Answer: C

Diff: 2

Topic: 26.1 Oligopoly

Question Status: Previous Edition

- 102) Using the concentration ratio to measure the degree of competition
- A) may understate the degree of competition because it ignores imported goods.
 - B) may overstate the degree of competition because it ignores imported goods.
 - C) may overstate the degree of competition because inter-industry competition is ignored.
 - D) may understate the degree of competition because market share changes annually.

Answer: A

Diff: 3

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

103) All of the following can create an oligopolistic structure EXCEPT

- | | |
|--------------------------------|------------------------|
| A) low barriers to entry. | B) economies of scale. |
| C) government licensing rules. | D) mergers. |

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

Question Status: Previous Edition

104) Suppose Nabisco merges with both a wheat firm and milling firm. This is an example of a

- | | |
|---------------------|-----------------------|
| A) vertical merger. | B) horizontal merger. |
| C) parallel merger. | D) diagonal merger. |

Answer: A

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Reflective thinking skills

Question Status: Previous Edition

105) What is oligopoly? How does oligopoly differ from the other kinds of market structure?

Answer: Oligopoly is an industry characterized by a small number of firms. The firms are interdependent, and they recognize that they are interdependent. This leads to strategic dependence, which means that firms must recognize that their actions will affect the other firms, and they must take into account the actions of the other firms.

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

106) What is meant by the concentration of an industry? How is concentration measured? What are likely causes of high concentration?

Answer: Industry concentration means that a relatively large share of the industry's output is produced by the largest firms in the industry. It is often measured with concentration ratios. The four-firm concentration ratio is the percentage of total industry sales generated by the four largest firms in the industry. High concentration is likely to be associated with economies of scale, barriers to entry, and a history of mergers.

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

107) Distinguish between a horizontal merger and a vertical merger.

Answer: A horizontal merger is a merger between two firms selling a similar product. A vertical merger is a merger between two firms when one firm purchases the output of the other firm as an input.

Diff: 1

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 108) "Oligopoly is the only market structure in which rivalry among firms takes place." Do you agree or disagree? Why?

Answer: Agree. Oligopolists recognize their strategic dependence and must take into consideration likely reactions by rivals to any decision they make. The firms realize they are in competition with other firms and may actively compete with them. Under perfect competition and monopolistic competition, there is no rivalry because the firms are too small to have any impact on the other firms. Each firm acts independent of the other firms. By definition there is no rival under monopoly. So, oligopoly is the only market structure where competitive behavior actually takes place.

Diff: 3

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 109) Using the information in the table, develop the four-firm concentration ratio. Would you classify this industry as an oligopoly? Explain your answer.

Firm	Annual Sales (\$ millions)
1	350
2	200
3	150
4	100
5	40
6 through 20	<u>20</u>
	810

Answer: The four-firm concentration ratio is 92.6 percent ($750/810$ multiplied by 100). This industry would be classified as an oligopoly if we use the rule of thumb that says that an oligopoly exists when the four-firm concentration ratio is at least 75%.

Diff: 2

Topic: 26.1 Oligopoly

AACSB: Analytic skills

Question Status: Previous Edition

26.2 Strategic Behavior and Game Theory

- 1) Within a game theory model, if a change in decision-making raises corporation A's profits by \$50 and lowers corporation B's profits by \$50, the game is a
- A) negative-sum game.
 - B) zero-sum game.
 - C) positive-sum game.
 - D) cooperative game.

Answer: B

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 2) Within a game theory model, if a change in decision-making raises corporation A's profits by \$50 and lowers corporation B's profits by \$40, the game is a
- A) negative-sum game.
 - B) zero-sum game.
 - C) positive-sum game.
 - D) cooperative game.

Answer: C

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: New

- 3) Within a game theory model, if a change in decision-making raises corporation A's profits by \$50 and lowers corporation B's profits by \$60, the game is a
- A) negative-sum game.
 - B) zero-sum game.
 - C) positive-sum game.
 - D) cooperative game.

Answer: A

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: New

- 4) Game theory would classify a cartel under the topic of
- A) zero-sum games.
 - B) cooperative games.
 - C) noncooperative games.
 - D) dominant-strategy games.

Answer: B

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 5) A game in which players as a group lose at the end of the game is referred to as
- A) zero-sum game.
 - B) negative-sum game.
 - C) positive-sum game.
 - D) tit-for-tat game.

Answer: B

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 6) A game in which players as a group gain at the end of the game is referred to as
- A) zero-sum game.
 - B) negative-sum game.
 - C) positive-sum game.
 - D) tit-for-tat game.

Answer: C

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: New

- 7) A noncooperative game would refer to a situation in which oligopoly firms
- A) are too small to be interdependent.
 - B) do not engage in collusive behavior together.
 - C) are made worse off by their actions.
 - D) behave as a joint monopoly.

Answer: B

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 8) In game theory, the strategy that always yields the highest benefit for the player using it is the
- A) dominant strategy.
 - B) cooperative strategy.
 - C) prisoners' strategy.
 - D) matrix strategy.

Answer: A

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 9) Collusion always involves firms engaging in a
- A) vertical merger.
 - B) horizontal merger.
 - C) cooperative game.
 - D) noncooperative game.

Answer: C

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 10) A noncooperative game situation may occur when
- A) firms collude.
 - B) firms find collusion too costly.
 - C) firms merge.
 - D) firms agree to price fixing.

Answer: B

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 11) The dominant strategy allows a firm to
- A) obtain the highest benefit, regardless of its rivals' actions.
 - B) transform a negative-sum game into a positive-sum game.
 - C) transform a zero-sum game into a positive-sum game.
 - D) escape from a Prisoners' Dilemma situation.

Answer: A

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

17) The prisoners' dilemma is a game in which

- A) the dominant strategy for all participants is to choose a strategy that makes them all worse off.
- B) the dominant strategy is to cooperate.
- C) only one of the firms is able to make above-normal profits.
- D) each firm, in making decisions on the basis of its own self-interest, also makes decisions that benefit the group as a whole.

Answer: A

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

18)

		Max	
		Confess	Don't Confess
Bo	Confess	2 years 2 years	5 years Goes free
	Don't Confess	Goes free 5 years	1 year 1 year

Refer to the above payoff matrix (in years of sentence) for two people (Bo and Max) charged for robbery. Which of the following is the outcome of the dominant strategy without cooperation?

- A) Both Bo and Max confess.
- B) Both Bo and Max do not confess.
- C) Bo confesses while Max does not confess.
- D) Bo does not confess while Max confesses.

Answer: A

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

19)

		B	
		Confess	Don't Confess
A	Confess	1 year / 1 year	3 years / Goes free
	Don't Confess	Goes free / 3 years	2 years / 2 years

Refer to the above payoff matrix (in years of sentence) for two people (A and B) charged for robbery. Which of the following is the outcome of the dominant strategy without cooperation?

- A) Both A and B confess. B) Both A and B do not confess.
 C) A confesses while B does not confess. D) A does not confess while B confesses.

Answer: A

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

20)

		Firm B's Price	
		High	Low
Firm A's Price	High	10 / 10	15 / 2
	Low	2 / 10	5 / 5

Refer to the above payoff matrix for the profits (in \$ millions) of two firms (A and B) and two pricing strategies (high and low). Which of the following is the outcome of the dominant strategy without cooperation?

- A) Both firm A and firm B choose the low price.
 B) Both firm A and firm B choose the high price.
 C) Firm A chooses the low price while firm B chooses the high price.
 D) Firm A chooses the high price while firm B chooses the low price.

Answer: A

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

21)

		Firm B's Price	
		High	Low
Firm A's Price	High	5 / 5	1 / 10
	Low	10 / 1	3 / 3

Refer to the above payoff matrix for the profits (in \$ millions) of two firms (A and B) and two pricing strategies (high and low). Which of the following is the outcome of the dominant strategy without cooperation?

- A) Both firm A and firm B choose the high price.
- B) Both firm A and firm B choose the low price.
- C) Firm A chooses the low price while firm B chooses the high price.
- D) Firm A chooses the high price while firm B chooses the low price.

Answer: B

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

22)

		Firm B's Strategy	
		Advertise	Don't Advertise
Firm A's Strategy	Advertise	2 / 2	5 / 20
	Don't Advertise	5 / 20	10 / 10

Refer to the above payoff matrix for the profits (in \$ millions) of two firms (A and B) making a decision to advertise or not. Which of the following is the outcome of the dominant strategy without cooperation?

- A) Both firm A and firm B choose not to advertise.
- B) Both firm A and firm B choose to advertise.
- C) Firm A chooses to advertise while firm B chooses not to advertise.
- D) Firm A chooses not to advertise while firm B chooses to advertise.

Answer: B

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

23)

		Firm Y's Strategy	
		Advertise	Don't Advertise
Firm X's Strategy	Advertise	3 / 3	10 / 25
	Don't Advertise	25 / 10	15 / 15

Refer to the above payoff matrix for the profits (in \$ millions) of two firms (X and Y) making a decision to advertise or not. Which of the following is the outcome of the dominant strategy without cooperation?

- A) Both firm X and firm Y choose not to advertise.
- B) Both firm X and firm Y choose to advertise.
- C) Firm X chooses to advertise while firm Y chooses not to advertise.
- D) Firm X chooses not to advertise while firm Y chooses to advertise.

Answer: B

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

24) The mutual interdependence of oligopolists ensures that each oligopolist has

- A) a unique demand curve.
- B) a perfectly elastic demand curve.
- C) a reaction function.
- D) a fundamental dilemma about whether to collude or not.

Answer: C

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

25) A reaction function is

- A) companies colluding in order to make higher than competitive rates of return.
- B) the manner in which one oligopolist reacts to a change in price made by another oligopolist in the industry.
- C) a game in which firms will not negotiate in any way.
- D) when plans made by firms are known as game strategies.

Answer: B

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 26) The manner in which one oligopolist reacts to a change in price, output, or quality made by another oligopolist in the industry is
- A) a cooperative game.
 - B) the reaction function.
 - C) a zero-sum game.
 - D) the concentration ratio.

Answer: B

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 27) In a "game," strategies are
- A) the reactions of firms to the changes in the economy.
 - B) the laws regulating the industry.
 - C) the plans made by the participants.
 - D) the potential returns the participants may get.

Answer: C

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 28) The analytical framework in which two or more firms compete for certain payoffs that depend on the strategy that the others employ is
- A) game theory.
 - B) the concentration ratio.
 - C) a horizontal merger.
 - D) network effect.

Answer: A

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 29) A noncooperative game is
- A) companies colluding in order to make higher than competitive rates of return.
 - B) the manner in which one oligopolist reacts to a change in price made by another oligopolist in the industry.
 - C) a game in which firms will not negotiate in any way.
 - D) when plans made by firms are known as game strategies.

Answer: C

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 30) A cooperative game is
- A) companies colluding in order to make higher than competitive rates of return.
 - B) the manner in which one oligopolist reacts to a change in price made by another oligopolist in the industry.
 - C) a game in which firms will not negotiate in any way.
 - D) when plans made by firms are known as game strategies.

Answer: A

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 31) A game in which the players explicitly coordinate their decisions to make themselves better off is a

A) cooperative game. B) noncooperative game.
C) zero-sum game. D) negative-sum game.

Answer: A

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Revised

		Bob	
		Confess	Don't Confess
Harry	Confess	6 years 6 years	10 years Goes free
	Don't Confess	Goes free 10 years	3 years 3 years

- 32) Refer to the above figure. The figure gives the payoff matrix for two individuals who are being accused of robbing a bank together. If Bob confesses, what is the best strategy for Harry?

A) Confess. B) Don't confess.
C) Flip a coin to decide what to do. D) There is no best strategy.

Answer: A

Diff: 3

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Refer to the above figure. The figure gives the payoff matrix for two individuals who are being accused of robbing a bank together. If Bob does not confess, what is the best strategy for Harry?

A) Confess. B) Don't confess.
C) Flip a coin to decide what to do. D) There is no best strategy.

Answer: A

Diff: 3

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 34) Refer to the above figure. The figure gives the payoff matrix for two individuals who are being accused of robbing a bank together. What is dominant strategy for Bob?

A) Confess. B) Don't confess.
C) Flip a coin to decide what to do. D) There is no dominant strategy.

Answer: A

Diff: 3

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Refer to the above figure. The figure gives the payoff matrix for two individuals who are being accused of robbing a bank together. Which of the following is the outcome of the dominant strategy without cooperation?

A) Both confess.
 B) Both don't confess.
 C) Bob confesses while Harry does not confess.
 D) Harry confesses while Bo does not confess.

Answer: A

Diff: 3

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: New

- 36) Refer to the above figure. The figure gives the payoff matrix for two individuals who are being accused of robbing a bank together. Which of the following is the outcome with cooperation?

A) Both confess.
 B) Both don't confess.
 C) Bob confesses while Harry does not confess.
 D) Harry confesses while Bo does not confess.

Answer: B

Diff: 3

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: New

		Ajax's Price	
		High	Low
Greenco's Price	High	\$5 million \$5 million	\$7 million \$2 million
	Low	\$2 million \$7 million	\$4 million \$4 million

- 37) Refer to the above figure. Ajax and Greenco are oligopolists. Above you are given the payoff matrix for the two firms giving the payoff associated with different pricing strategies. What is the best strategy for Greenco if Ajax decides on charging a high price?

A) High price
 B) Low price
 C) There is no best strategy.
 D) Not enough information is given to determine the best strategy.

Answer: B

Diff: 3

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 38) Refer to the above figure. Ajax and Greenco are oligopolists. Above you are given the payoff matrix for the two firms giving the payoff associated with different pricing strategies. What is the best strategy for Greenco if Ajax decides on charging a low price?

- A) High price.
- B) Low price.
- C) There is no best strategy.
- D) Not enough information is given to determine the best strategy.

Answer: B

Diff: 3

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 39) Refer to the above figure. Ajax and Greenco are oligopolists. Above you are given the payoff matrix for the two firms giving the payoff associated with different pricing strategies. What is the dominant strategy for Greenco?

- A) High price.
- B) Low price.
- C) There is no best strategy.
- D) Not enough information is given to determine the best strategy.

Answer: B

Diff: 3

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 40) Refer to above figure, which represents a duopoly industry. What would be the likely total industry payoff or profit?

- A) \$8 million
- B) \$9 million
- C) \$10 million
- D) \$14 million
- E) zero

Answer: A

Diff: 3

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 41) Suppose two firms are in a game situation, and they each must decide on a strategy regarding whether to select a high price or a low price. Profits for a firm are highest when it selects a low price, while the other selects a high price; profits are lowest if one selects a high price, while the other selects a low price; profits are in between when both select low prices; and profits are slightly higher when both select high prices. In the absence of collusion we expect
- A) one of the firms to select a high price and the other a low price.
 - B) one firm to select a high price and the other a low price in the first period, followed by a reversal in the second period.
 - C) both to select high prices.
 - D) both to select low prices.

Answer: D

Diff: 3

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 42) A game in which the players neither negotiate nor coordinate in any way is a
- A) cooperative game.
 - B) noncooperative game.
 - C) zero-sum game.
 - D) negative-sum game.

Answer: B

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 43) An example of a zero-sum game is
- A) exchange.
 - B) a consumer purchasing a used car from a used car dealer.
 - C) the prisoners' dilemma.
 - D) poker.

Answer: D

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 44) A game in which any gains within the group are exactly offset by equal losses by the end of the game is a
- A) positive-sum game.
 - B) zero-sum game.
 - C) strategy.
 - D) negative-sum game.

Answer: B

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 45) Any rule that is used to make a choice is
- A) positive-sum game.
 - B) zero-sum game.
 - C) strategy.
 - D) negative-sum game.

Answer: C

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 46) Your teacher decides to play a game where every student must contribute a dollar. All money collected is distributed at the end of the game among the students. This is an example of a
- A) positive-sum game.
 - B) zero-sum game.
 - C) strategy.
 - D) negative-sum game.

Answer: B

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 47) A dominant strategy is one that
- A) yields a position of the winner so long as the other participants act as planned.
 - B) every participant in the game will follow.
 - C) turns a negative-sum game into a positive-sum game.
 - D) always yields the highest benefit regardless of what the other players do.

Answer: D

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 48) Actions that ignore the possible long-run benefits of cooperation and focus solely on short-run gains are
- A) a zero-sum game.
 - B) a negative-sum game.
 - C) tit-for-tat strategic behavior.
 - D) opportunistic behavior.

Answer: D

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 49) Cooperation that continues as long as the players continue to cooperate is
- A) a zero-sum game.
 - B) a negative-sum game.
 - C) tit-for-tat strategic behavior.
 - D) opportunistic behavior.

Answer: C

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 50) People do not usually behave in a noncooperative fashion even when it is in their immediate interest to do so because
- A) they realize such behavior is immoral.
 - B) they know there can be 2 winners.
 - C) they know they will have repeated dealings with the other people.
 - D) they understand the difficulties with game theory.

Answer: C

Diff: 3

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 51) When oligopolistic companies engage in collusion, the companies are involved in a
- A) noncooperative game.
 - B) negative-sum game.
 - C) competitive game.
 - D) cooperative game.

Answer: D

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 52) When a player in a game adopts a strategy which always yields the highest benefit regardless of what the other player does, that player is using a(n)
- A) opportunistic strategy.
 - B) dominant strategy.
 - C) tit-for-tat strategy.
 - D) aggressive strategy.

Answer: B

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 53) A game in which all the players are better off at the end of the game is a
- A) tit-for-tat game.
 - B) dominant strategy game.
 - C) positive-sum game.
 - D) noncooperative game.

Answer: C

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 54) A game in which all the players are worse off at the end of the game is a
- A) negative-sum game.
 - B) dominant strategy game.
 - C) positive-sum game.
 - D) noncooperative game.

Answer: A

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: New

- 55) A game in which any gains by the group are exactly offset by equal losses by the end of the game is called the
- A) negative-sum game.
 - B) zero-sum game.
 - C) positive-sum game.
 - D) cooperative game.

Answer: B

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 56) The manner in which one oligopolist reacts to a change in price, output, or quantity on the part of another oligopolist in the industry is known as
- A) a positive-sum game.
 - B) the reaction function.
 - C) a noncooperative game.
 - D) a zero-sum game.

Answer: B

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 57) The analytical framework in which two or more individuals, companies, or nations compete for certain payoffs that depend on the strategy that others employ is
- A) game theory.
 - B) opportunistic behavior.
 - C) the dominant equilibrium.
 - D) the tit-for-tat equilibrium.

Answer: A

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 58) Decision makers in oligopolistic firms must devise a strategy. One that yields the highest benefit, regardless of what the other players do is a
- A) pricing strategy.
 - B) coherent strategy.
 - C) dominant strategy.
 - D) revenue strategy.

Answer: C

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 59) The payoff matrix shows all of the following EXCEPT

		Firm 2's Price	
		High	Low
Firm 1's Price	High	\$6 million / \$6 million	\$8 million / \$2 million
	Low	\$2 million / \$8 million	\$4 million / \$4 million

- A) if both oligopolists choose a high price, each makes \$6 million.
- B) if they both choose a low price, each makes \$4 million.
- C) if one chooses a low price and the other doesn't, the low priced firm will make \$8 million.
- D) if one oligopolist chooses a high price and the other doesn't, the high-priced firm makes \$8 million.

Answer: D

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 60) In game theory, actions such as cheating that focus solely on short-run gains are referred to as
- A) territorial behavior.
 - B) tit-for-tat strategic behavior.
 - C) predatory behavior.
 - D) opportunistic behavior.

Answer: D

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 61) In game theory, behavior that results in cooperation as long as the other players continue to cooperate, is referred to as

- A) nice behavior.
- B) tit-for-tat strategic behavior.
- C) simple behavior.
- D) opportunistic behavior.

Answer: B

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 62) The way in which an oligopolist acts in response to a price change by a competitor is known as a
- A) zero-sum game.
 - B) positive-sum game.
 - C) reaction function.
 - D) cooperative game.

Answer: C

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 63) When OPEC meets to set production levels, this organization is playing a
- A) negative sum game.
 - B) cooperative game.
 - C) non-cooperative game.
 - D) reaction function game.

Answer: B

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 64) When Goodyear increases its production when Michelin reduces its production, Goodyear is playing a

- A) negative-sum game.
- B) cooperative game.
- C) non-cooperative game.
- D) reaction function game.

Answer: C

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Reflective thinking skills

Question Status: Previous Edition

65) A game in which any gains one player makes are offset by equal losses by another player is known as a

- A) zero-sum game.
- B) positive-sum game.
- C) negative-sum game.
- D) cooperative game.

Answer: A

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

66) A game in which players collectively lose is known as a

- A) zero-sum game.
- B) positive-sum game.
- C) negative-sum game.
- D) cooperative game.

Answer: C

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

67) A game in which players collectively gain is known as a

- A) zero-sum game.
- B) positive-sum game.
- C) negative-sum game.
- D) cooperative game.

Answer: B

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

68) Games can be judged according to the payoffs

- A) as zero-sum, negative-sum, and positive-sum games.
- B) as collusive or noncollusive games.
- C) as competitive or noncompetitive games.
- D) whether all companies participate or not.

Answer: A

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

69) Which of the following statements concerning the prisoner's dilemma is true?

- A) The player who moves last will always win.
- B) Confessing is the dominant strategy for both players.
- C) Neither player will pick the dominant strategy.
- D) The player who moves first will always win.

Answer: B

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 70) The prisoner's dilemma shows that
- A) players are better off if they act independently.
 - B) monopolies are beneficial to society.
 - C) people will always cheat.
 - D) players would be better off if they cooperated.

Answer: D

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 71) An action that is the best choice under all conditions is known as the
- A) profit-maximizing strategy.
 - B) prisoner's dilemma.
 - C) tit-for-tat strategy.
 - D) dominant strategy.

Answer: D

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 72) When a cartel breaks down and its members start cheating, the behavior in the industry becomes a
- A) noncooperative game.
 - B) zero-sum game.
 - C) high stakes game.
 - D) positive sum game.

Answer: A

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

- 73) Opportunistic behavior by oligopolies means
- A) that firms cooperate in both the long run and in the short run to prevent others from entering the industry.
 - B) that firms cooperate in the short run for current gains.
 - C) that firms refuse to cooperate in the short run.
 - D) that firms refuse to honor their product guarantees.

Answer: B

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

- 74) A dominant strategy is a
- A) last-move strategy.
 - B) losing strategy.
 - C) player's best strategy when he can make the first move.
 - D) player's best strategy regardless whatever strategies are adopted by his rivals.

Answer: D

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

Question Status: Previous Edition

75) Explain the basic operations of an economic game.

Answer: Games can be either cooperative, in which the firms collude, or noncooperative. The players of the game are the decision-makers in oligopolistic firms, and they devise strategies, which are rules used to make a decision. Payoffs are the outcomes of the strategies employed by all of the players.

Diff: 1

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

76) Firms faced with prisoners' dilemma can always make more profits by engaging in opportunistic behavior. Why is this type of behavior NOT commonly found even in oligopolistic markets?

Answer: The prisoners' dilemma describes noncooperative behavior, but in reality most businesses engage in repeat transactions so that cooperation is likely to occur. One cooperative strategy is tit-for-tat behavior.

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

77) Explain how the prisoners' dilemma can be used to examine pricing strategies in an oligopoly.

Answer: The players can choose either a high-price strategy or a low-price strategy. If both choose high, they each make substantial profits. If both choose low, they each make smaller profits. If one chooses high and the other low, the one who chooses high makes low profits and the other makes the most profits possible. Each firm will choose low because that is their dominant strategy—regardless of what the other firm does, a firm has higher profits if it chooses the low-price strategy. When both choose low, though, their profits are less than they could have been.

Diff: 2

Topic: 26.2 Strategic Behavior and Game Theory

AACSB: Analytic skills

Question Status: Previous Edition

26.3 The Cooperative Game: A Collusive Cartel

1) A group of firms that try to work together to earn monopoly profits is called a(n)

- | | |
|------------|-----------------------|
| A) patent. | B) public enterprise. |
| C) cartel. | D) natural monopoly. |

Answer: C

Diff: 1

Topic: 26.3 The Cooperative Game: A Collusive Cartel

Question Status: Revised

2) According to game theorists, a cartel of several firms is an example of a(n)

- | | |
|----------------------|-------------------------|
| A) zero-sum game. | B) uncooperative game. |
| C) cooperative game. | D) noncooperative game. |

Answer: C

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

Question Status: Revised

3) An example of a cooperative game would be

- A) oligopoly.
- C) a cartel.

- B) monopolistic competition.
- D) perfect competition.

Answer: C

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

Question Status: Revised

4) An association of producers in an industry that agree to set common prices and output quotas to prevent competition is

- A) a tariff.
- C) economies of scale.

- B) a patent.
- D) a cartel.

Answer: D

Diff: 1

Topic: 26.3 The Cooperative Game: A Collusive Cartel

Question Status: Revised

5) Which of the following is not true about a cartel?

- A) Members earn economic profits.
- B) Members experience large economies to scale relative to industry demand.
- C) Cartels will set common prices for their members.
- D) Members of a cartel will have production quotas.

Answer: B

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Revised

6) The main objective of the members of a cartel is to

- A) earn economic profits.
- C) make the industry more competitive.

- B) produce efficiently.
- D) obtain a patent.

Answer: A

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Revised

7) A group of producers that agree to coordinate their production is called a

- A) cartel.
- C) free market competition.

- B) monopoly.
- D) vertical merger.

Answer: A

Diff: 1

Topic: 26.3 The Cooperative Game: A Collusive Cartel

Question Status: Previous Edition

- 8) In a cartel, firms jointly act as
- | | |
|-------------------------------------|----------------------------------|
| A) a monopolistic competitive firm. | B) a perfectly competitive firm. |
| C) a monopoly firm. | D) an oligopolistic firm. |

Answer: C

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

- 9) An association of producers that fixes common prices and output quotas is known as a
- | | |
|---------------------------------|---------------------------------|
| A) cartel. | B) common selling organization. |
| C) joint-marketing arrangement. | D) trade association. |

Answer: A

Diff: 1

Topic: 26.3 The Cooperative Game: A Collusive Cartel

Question Status: Previous Edition

- 10) Which of the following is LEAST likely to be a reason for firms to form a cartel?
- | |
|---|
| A) to maximize profits of the cartel |
| B) to raise competition among firms in the cartel |
| C) to cut back output of the cartel |
| D) to set common prices among firms in the cartel |

Answer: B

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Cheating in a cartel is more likely to occur if the industry
- | | |
|---------------------------------|------------------------------------|
| A) has a large number of firms. | B) has homogeneous products. |
| C) has easily observable prices | D) has little variation in prices. |

Answer: A

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

- 12) A cartel is a form of
- | | |
|--------------------------------|-----------------------|
| A) collusion. | B) vertical merger. |
| C) noncooperative competition. | D) negative sum game. |

Answer: A

Diff: 1

Topic: 26.3 The Cooperative Game: A Collusive Cartel

Question Status: Previous Edition

13) The success of a cartel rests upon

- A) inducing all members to limit their combined output and charge the same price.
- B) inducing all members to differentiate their products and charge different prices.
- C) making exit from the cartel as nearly costless as possible.
- D) discouraging some firms in the market from joining.

Answer: A

Diff: 1

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

14) Which of the following is LEAST likely to be an outcome of a cartel as compared to the situation before the cartel was formed?

- A) Cartel members charge higher prices.
- B) Cartel members reduce production.
- C) Cartel members make fewer profits.
- D) Cartel members do not compete with each other in pricing decisions.

Answer: C

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

15) After participating members of a cartel form an agreement on common prices and output quotas, then an individual firm can increase its own profits by

- A) increasing production.
- B) increasing prices.
- C) leaving the cartel.
- D) incurring higher input costs.

Answer: A

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

16) After participating members of a cartel form an agreement on common prices and output quotas, then an individual firm can increase its own profits by

- A) decreasing production.
- B) decreasing prices.
- C) advertising.
- D) paying its employees higher wages.

Answer: B

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: New

17) Which of the following is a condition that helps enforce a cartel agreement?

- A) a large number of firms
- B) relatively differentiated products
- C) easily observable prices
- D) large variation in prices

Answer: C

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

Question Status: Previous Edition

- 18) Which of the following is NOT a condition that helps enforce a cartel agreement?
- A) a small number of firms
 - B) nearly homogeneous products
 - C) easily observable prices
 - D) large variation in input prices

Answer: D

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

Question Status: New

- 19) One of the fundamental problems a cartel faces is
- A) to determine how much each producer will decrease its output.
 - B) to determine how much each producer will increase its output.
 - C) to determine how much each producer will lower its price.
 - D) to determine how much each producer will lower its profit.

Answer: A

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: New

- 20) Cartel agreements are more likely to break down when
- A) there are few variations in market demand.
 - B) new firms enter the market.
 - C) participating firms earn huge profits.
 - D) none of the above

Answer: B

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

- 21) A cartel is likely to last longer if
- A) more new firms enter the market.
 - B) the profits of participating members are relatively stable.
 - C) market prices vary more over time.
 - D) there are more firms in the industry.

Answer: B

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

- 22) The goal of a cartel is to
- A) increase competition among members.
 - B) maximize industry profits.
 - C) increase industry production.
 - D) all of the above

Answer: B

Diff: 1

Topic: 26.3 The Cooperative Game: A Collusive Cartel

Question Status: Previous Edition

- 23) A cartel most likely forms in
- A) an oligopolistic market.
 - B) a perfectly competitive market.
 - C) a monopolistically competitive market.
 - D) a heavily regulated industry.

Answer: A

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

Question Status: Previous Edition

- 24) A member in a cartel can earn more profits by
- A) charging a slightly lower price and raising production.
 - B) producing less than the agreed rate.
 - C) selling less than the agreed amount.
 - D) none of the above.

Answer: A

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

- 25) A cartel will break down more easily if
- A) there are only a few members.
 - B) industry demand is very stable.
 - C) market prices can be observed easily.
 - D) there are many entrants in the industry.

Answer: D

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

- 26) In a cartel, participating members can cheat by
- A) letting more entrants join the cartel.
 - B) leaving the industry.
 - C) producing a lower production level than the cartel quota.
 - D) charging a slightly lower price and raising production.

Answer: D

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

- 27) A cartel is
- A) a group of producers that agree to set common prices and output quotas.
 - B) a group of consumers that bid against each other for the same product.
 - C) a government agency that regulates markets.
 - D) an arbitrator to settle disputes between consumers and producers.

Answer: A

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

Question Status: Previous Edition

- 28) Between 1986 and 1998 the De Beers company controlled the world diamond market. De Beers and its affiliated association of producers restricted diamond sales to maximize profits. De Beers and its association was "the only game in town" and had what is
- A) a cartel.
B) a duopoly.
C) monopolistic competitor.
D) perfect competitor.

Answer: A

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 29) A cartel behaves like
- A) a monopolistic competitive firm. B) a perfectly competitive firm.
- C) a monopolist. D) an oligopolistic firm.

Answer: C

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

- 30) If three firms of similar sizes join to form a cartel, then it is most likely that
- A) they will charge a common, higher market price.
 - B) they will collectively produce more than before.
 - C) all three firms will stop producing.
 - D) all three firms will earn zero profits.

Answer: A

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

- 31) If five firms of similar sizes join to form a cartel, then it is most likely that
- A) they will charge a common, lower market price.
 - B) they will collectively produce less than before.
 - C) all five firms will earn the same profits as before.
 - D) all five firms as a group will have falling profits, but increased output.

Answer: B

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: New

32) When oligopolistic firms in an industry form a cartel, then it is most likely that

- A) both industry output and prices will increase.
- B) both industry output and prices will decrease.
- C) industry output will increase while prices will decrease.
- D) industry output will decrease while prices will increase.

Answer: D

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

33) An association of producers in an industry that agree to set common prices and output quotas to prevent competition is

- A) an oligopolist.
- B) a monopolistic competitor.
- C) a constrained monopoly.
- D) a cartel.

Answer: D

Diff: 1

Topic: 26.3 The Cooperative Game: A Collusive Cartel

Question Status: Previous Edition

34) An association of producers such as OPEC that agrees to set common pricing or output goals is referred to as a

- A) cartel.
- B) conglomerate.
- C) monopoly.
- D) partnership.

Answer: A

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Reflective thinking skills

Question Status: Previous Edition

35) What is a cartel? Can cartels generate long-term profits without the existence of barriers to entry?

Answer: A cartel is an association of producers in an industry that agree to set common prices and output quotas to prevent competition. If they successfully earn profits, new firms will enter, so barriers to entry are still needed.

Diff: 1

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Revised

36) Why do firms form a cartel? How do cartels achieve their goals?

Answer: Firms form a cartel in order to maximize their combined profits by acting as a single producer. To do so, they agree on setting common prices and output quotas for participating members.

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

- 37) What are the main characteristics that make it more likely for a cartel to enforce agreements among participating members?

Answer: A cartel is more effective in enforcing agreements if there are a small number of firms, relatively homogeneous products, easily observable prices, and little variation in prices.

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

- 38) Why would a member of a cartel cheat?

Answer: After setting a common price or production quotas, a member of a cartel can earn more profits individually by "cheating": setting a slightly lower price than the cartel price and producing and selling more output than specified under the cartel agreement.

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

- 39) Why do cartels often break down?

Answer: Cartels often break down because of the incentives for each individual member of the cartel to reduce its own price slightly and increase its production in order to reap more profits than those under a cartel agreement. Also, economic profits due to the cartels often provide an incentive for new firms to enter the market and act as a cheating cartel member.

Diff: 2

Topic: 26.3 The Cooperative Game: A Collusive Cartel

AACSB: Analytic skills

Question Status: Previous Edition

26.4 Network Effects

- 1) When a consumer's willingness to buy a good or service is influenced by the number of people who have purchased that good or service, this is called

A) a switching cost.

B) an opportunity cost.

C) a network effect.

D) an advertising gimmick.

Answer: C

Diff: 1

Topic: 26.4 Network Effects

Question Status: Previous Edition

- 2) For years, your neighbor insisted she had no desire to own a computer. Recently, however, she purchased one and says she did so because all her relatives have computers and she wants to exchange e-mail with them. Your neighbor's behavior is an example of

A) a switching cost.

B) the impact of negative market feedback.

C) limited-pricing behavior.

D) a network effect.

Answer: D

Diff: 2

Topic: 26.4 Network Effects

AACSB: Use of information technology

Question Status: Previous Edition

- 3) For years, your parents claimed they had no desire to join a social web site. Recently, however, they joined one and said they did so because all their relatives have joined the same site with them. Your parents' behavior is an example of
- A) a switching cost.
 - B) a network effect.
 - C) the impact of positive market feedback.
 - D) the impact of negative market feedback.

Answer: B

Diff: 2

Topic: 26.4 Network Effects

AACSB: Use of information technology

Question Status: New

- 4) A network effect arises whenever
- A) firms in an oligopolistic industry engage in limit pricing.
 - B) firms in an oligopolistic industry engage in a zero-sum game.
 - C) a consumer's willingness to purchase a good or service is influenced by how many others also buy or have bought the item.
 - D) a producer's willingness to produce a good or service is influenced by how many other firms also produce or have produced the item.

Answer: C

Diff: 1

Topic: 26.4 Network Effects

Question Status: Previous Edition

- 5) When there is a tendency for a particular product to come into favor with additional consumers because other consumers have chosen to purchase the product,
- A) negative market feedback occurs.
 - B) positive market feedback occurs.
 - C) there is no dominant strategy.
 - D) a price war must result.

Answer: B

Diff: 1

Topic: 26.4 Network Effects

Question Status: Previous Edition

- 6) When there is a tendency for a particular product to fall out favor with additional consumers because other consumers have chosen not to purchase the product,
- A) negative market feedback occurs.
 - B) positive market feedback occurs.
 - C) the tit-for-tat strategy will begin.
 - D) the network effect will increase.

Answer: A

Diff: 1

Topic: 26.4 Network Effects

Question Status: New

- 7) Negative market feedback refers to a tendency for
- A) one or two firms in an oligopolistic industry to respond to price decreases by initiating efforts to engage in price leadership.
 - B) a particular product to fall out of favor with additional consumers because other consumers have stopped purchasing the product.
 - C) the dominant firm in an oligopolistic industry to react to competing firms' price increases by decreasing the price of its own product.
 - D) price wars to break out in oligopolistic industries in which firms produce products possessing characteristics that make them prone to network effects.

Answer: B

Diff: 1

Topic: 26.4 Network Effects

Question Status: Previous Edition

- 8) Positive market feedback refers to a tendency for
- A) potential entrants to an oligopolistic industry to respond to entry deterrence strategies by contemplating setting their prices above prices established by firms already in the industry.
 - B) potential entrants to an oligopolistic industry to respond to entry deterrence strategies by contemplating producing more output than the quantities produced by firms already in the industry.
 - C) a particular product to come into favor with additional consumers because other consumers have chosen to purchase the product.
 - D) price leaders to respond to an increase in market demand by increasing the prices of their products.

Answer: C

Diff: 1

Topic: 26.4 Network Effects

Question Status: Previous Edition

- 9) A network effect exists whenever
- A) a firm's willingness to produce a particular good or service is influenced by the costs of inputs it must utilize in order to manufacture the item.
 - B) a consumer's willingness to purchase a particular good or service is influenced by how many others also buy or have bought the item.
 - C) a firm's willingness to purchase a particular factor of production depends on the other types of inputs it utilizes to manufacture an item.
 - D) a consumer's willingness to purchase a particular good or service is influenced by the prices of other complementary or substitute items.

Answer: B

Diff: 1

Topic: 26.4 Network Effects

Question Status: Previous Edition

- 10) A situation where a consumer's willingness to use an item depends on how many others use it is
- A) a positive-sum game.
 - B) a network effect.
 - C) price-leadership.
 - D) a vertical merger.

Answer: B

Diff: 1

Topic: 26.4 Network Effects

Question Status: Previous Edition

- 11) When network effects are important, then an industry can experience
- A) positive market feedback.
 - B) prince-leadership.
 - C) a zero-sum game.
 - D) a vertical merger.

Answer: A

Diff: 1

Topic: 26.4 Network Effects

Question Status: Previous Edition

- 12) When a new product is introduced in the market, Lenny always wants to see how popular the item becomes before he purchases it. Lenny's behavior is known as
- A) overt collusion.
 - B) limit-pricing.
 - C) a network effect.
 - D) price leadership.

Answer: C

Diff: 2

Topic: 26.4 Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

- 13) When a falloff in usage of a product by some consumers causes others to stop purchasing the item there is
- A) price leadership.
 - B) negative-sum game.
 - C) positive market feedback.
 - D) negative market feedback.

Answer: D

Diff: 1

Topic: 26.4 Network Effects

Question Status: Previous Edition

- 14) A tendency for a good to come into favor with consumers because other consumers have chosen to buy the item is
- A) price-leadership.
 - B) negative-sum game.
 - C) positive market feedback.
 - D) negative market feedback.

Answer: C

Diff: 1

Topic: 26.4 Network Effects

Question Status: Previous Edition

- 15) Jane purchases snickle-dees only because her friends do. This is
- A) price-leadership.
 - B) negative-sum game.
 - C) positive market feedback.
 - D) negative market feedback.

Answer: C

Diff: 2

Topic: 26.4 Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Stephanie listens to punk rock because her friends do. This is
- A) a positive sum game.
 - B) collusion.
 - C) positive market feedback.
 - D) negative market feedback.

Answer: C

Diff: 2

Topic: 26.4 Network Effects

AACSB: Analytic skills

Question Status: New

- 17) Sunil has decided not to purchase another can of Stosh because his friends laughed at him the last time he purchased some. Stosh is no longer a popular item. Sunil's action is known as
- A) price-leadership.
 - B) negative-sum game.
 - C) positive market feedback.
 - D) negative market feedback.

Answer: D

Diff: 2

Topic: 26.4 Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Because all of his friends stopped exclusively wearing black clothes, Doug wears anything but black clothes. This is known as
- A) a negative sum game.
 - B) collusion.
 - C) positive market feedback.
 - D) negative market feedback.

Answer: D

Diff: 2

Topic: 26.4 Network Effects

AACSB: Analytic skills

Question Status: New

- 19) In an industry with network effects and differentiated products, it is possible for the industry to become an oligopoly if
- A) they engage in a zero-sum game.
 - B) they use a price-leadership model.
 - C) they use a kinked demand curve model.
 - D) a few firms reap most of the sales gains resulting from positive market feedback.

Answer: D

Diff: 1

Topic: 26.4 Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

- 20) The idea that if enough consumers cut back on their use of a product it induces other consumers to do the same is referred to as
- A) positive market feedback.
 - B) non-dynamic market feedback.
 - C) negative market feedback.
 - D) elicit market feedback.

Answer: C

Diff: 2

Topic: 26.4 Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

- 21) People's willingness to buy the PC or Mac format of computer software depends on how popular the software format is among other consumers. This is an example of
- A) a cartel.
 - B) an opportunity cost.
 - C) a network effect.
 - D) the prisoners' dilemma.

Answer: C

Diff: 1

Topic: 26.4 Network Effects

AACSB: Use of information technology

Question Status: Previous Edition

- 22) Which of the following is NOT subject to a network effect?
- A) the layout of the keys on your keyboard
 - B) rotating your tires every six months
 - C) using a fax machine
 - D) purchasing a new high-definition DVD player

Answer: B

Diff: 2

Topic: 26.4 Network Effects

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 23) An example of a positive market feedback is
- A) the emergence of the iPod.
 - B) routine maintenance on a car.
 - C) the declining use of land-line telephones for long distance calls.
 - D) the use of telegraph services in the twenty-first century.

Answer: A

Diff: 2

Topic: 26.4 Network Effects

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 24) How can network effects lead an industry to become an oligopoly?

Answer: If a few firms selling products subject to network effects can differentiate them from other products, and if the products from these few firms experience positive market feedback, then that group of firms will capture the bulk of industry sales. Consequently, oligopoly is likely to emerge as the prevailing market structure.

Diff: 2

Topic: 26.4 Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

- 1) Product compatibility is
- A) the capability of a product sold by one firm to compete with another firm's product.
 - B) the capability of a product sold by one firm to function together with another firm's complementary product.
 - C) the sensitivity of the price of one product is to the change of the price of another product.
 - D) how much one product can be substituted for another product.

Answer: B

Diff: 1

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

Question Status: Previous Edition

- 2) Product compatibility applies to products of different firms that
- A) are complementary.
 - B) are substitutable.
 - C) have no network effects.
 - D) none of the above

Answer: A

Diff: 1

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

Question Status: Previous Edition

- 3) Beta videocassettes had the highest degree of product compatibility with
- A) VHS videocassettes.
 - B) audiocassettes.
 - C) videocassette players.
 - D) CD players.

Answer: C

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

- 4) The situation in which firms choose incompatible product formats is called
- A) the prisoners' dilemma.
 - B) a Tweedle Dee–Tweedle Dum game.
 - C) Battle of the Sexes.
 - D) a cartel.

Answer: B

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

- 5) A Tweedle Dee–Tweedle Dum outcome occurs when
- A) firms earn highest profits by adopting different product formats.
 - B) firms earn highest profits by adopting the same product format.
 - C) firms cheat after forming a cartel.
 - D) firms earn highest profits by cooperation.

Answer: A

Diff: 1

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

Question Status: Previous Edition

- 6) A Battle of the Sexes outcome occurs when
- A) firms earn highest profits by adopting different product formats.
 - B) firms earn highest profits by trying to coordinate but cannot agree on how to do so.
 - C) firms earn highest profits by adopting either male or female product formats.
 - D) firms cooperate as long as other firms cooperate, but if anyone cheats, they cut the price until the cheater reverts to cooperation.

Answer: B

Diff: 1

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

Question Status: New

- 7) The situation in which firms wish to coordinate but cannot agree on how to do so is called
- A) the prisoners' dilemma.
 - B) a Tweedle Dee–Tweedle Dum game.
 - C) Battle of the Sexes.
 - D) a cartel.

Answer: C

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

Question Status: Previous Edition

- 8) Which of the following games yields an outcome in which two firms would simultaneously be willing to adopt a compatible product format?
- A) the prisoners' dilemma
 - B) Tweedle Dee–Tweedle Dum
 - C) Battle of the Sexes
 - D) none of the above

Answer: D

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

Question Status: Previous Edition

- 9) Which of the following best describes the Battle of the Sexes?
- A) Two firms choose incompatible product formats.
 - B) Two firms choose one compatible product format.
 - C) Two firms wish to coordinate on one compatible product format but cannot agree on which one.
 - D) Two firms choose to engage in a noncooperative game.

Answer: C

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

Question Status: Previous Edition

- 10) Which of the following best describes the Tweedle Dee–Tweedle Dum outcome?
- A) Two firms choose incompatible product formats.
 - B) Two firms choose one compatible product format.
 - C) Two firms wish to coordinate on one compatible product format but cannot agree on which one.
 - D) Two firms choose to engage in a noncooperative game.

Answer: A

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

Question Status: New

- 11) In the Battle of the Sexes, profits are the highest if
- A) the two firms choose incompatible product format.
 - B) the two firms choose to adopt one particular product format.
 - C) the two firms do not cooperate on the product format.
 - D) none of the above

Answer: B

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

12)

		Firm Y's Format	
		A	B
Firm X's Format	B	10 10	5 5
	A	2 2	15 15

Refer to the above payoff matrix for the profits (in \$ millions) of two firms (X and Y) and two product formats (A and B) in an industry. A possible outcome of the dominant strategy is:

- A) Both firm X and firm Y choose product format A.
- B) Both firm X and firm Y choose product format B.
- C) Firm X would be willing to choose product format A while firm Y simultaneously would wish to choose product format B.
- D) Firm X would be willing to choose product format B as long as firm Y wishes simultaneously also to choose product format B.

Answer: C

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

13)

		Firm Y's Format	
		A	B
Firm X's Format	B	10 / 10	5 / 5
	A	2 / 2	15 / 15

Refer to the above payoff matrix for the profits (in \$ millions) of two firms (X and Y) and two product formats (A and B) in an industry. The game with the dominant strategy is also called:

- A) Battle of the Sexes.
 B) Tit-for-Tat.
 C) Tweedle Dee-Tweedle Dum.
 D) the prisoners' dilemma.

Answer: C

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: New

14)

		Firm Y's Format	
		A	B
Firm X's Format	B	5 / 5	10 / 10
	A	15 / 15	2 / 2

Refer to the above payoff matrix for the profits (in \$ millions) of two firms (X and Y) and two product formats (A and B) in an industry. A possible outcome of the dominant strategy is:

- A) Both firm X and firm Y would be willing to choose product format A.
 B) Neither firm X nor firm Y would be willing to choose product format B simultaneously.
 C) Firm X chooses product format A while firm Y chooses product format B.
 D) Firm X chooses product format B while firm Y chooses product format A.

Answer: A

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

15)

		Firm Y's Format	
		A	B
Firm X's Format	B	5 / 5	15 / 10
	A	15 / 10	2 / 2

Refer to the above payoff matrix for the profits (in \$ millions) of two firms (X and Y) and two product formats (A and B) in an industry. A possible outcome of the dominant strategy is:

- A) Both firm X and firm Y choose product format A.
- B) Both firm X and firm Y choose product format B.
- C) Firm X would be willing to choose product format A while firm Y simultaneously would wish to choose product format B.
- D) Firm X would be willing to choose product format B as long as firm Y wishes simultaneously also to choose product format B.

Answer: C

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

16)

		Firm Y's Format	
		A	B
Firm X's Format	B	5 / 5	15 / 10
	A	15 / 10	2 / 2

Refer to the above payoff matrix for the profits (in \$ millions) of two firms (X and Y) and two product formats (A and B) in an industry. The game with the dominant strategy is also called:

- A) Battle of the Sexes.
- B) the prisoners' dilemma.
- C) Tit-for-Tat.
- D) Tweedle Dee-Tweedle Dum.

Answer: A

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: New

17)

		Firm Y's Format	
		A	B
Firm X's Format	B	5 5	10 10
	A	15 15	2 2

Refer to the above payoff matrix for the profits (in \$ millions) of two firms (X and Y) and two product formats (A and B) in an industry. The game with the dominant strategy is also called

- A) the prisoners' dilemma. B) Tweedle Dee-Tweedle Dum.
C) Pure Coordination Game. D) Tit-for-Tat.

Answer: C

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: Revised

18) If two goods are complementary, then they have a

- A) low degree of product compatibility. B) high degree of product compatibility.
C) high degree of negative network effect. D) low degree of negative network effect.

Answer: B

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

Question Status: Previous Edition

19) If the product of one firm is complementary to another product of another firm, then the two products

- A) are compatible. B) are substitutable.
C) have a zero network effect. D) have a negative network effect.

Answer: A

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

Question Status: Previous Edition

20) By reducing the product compatibility of iPod, Apple can lower the price elasticities of demand for

- A) Apple products that are complementary to the iPod.
B) Apple products that are substitutable to the iPod.
C) products by other firms that have a positive network effects.
D) products that are not related to the iPod.

Answer: A

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

21) An industry battle between incompatible product formats can occur if competing firms selling compatible products

- A) take into account network effects.
- B) fail to take into account network effects.
- C) take into account economies of scale.
- D) fail to take into account economies of scale.

Answer: B

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

22)

		Firm Y's Format	
		A	B
Firm X's Format	B	1 / 1	10 / 7
	A	7 / 10	2 / 2

Refer to the above payoff matrix for the profits (in \$ millions) of two firms (X and Y) and two product formats (A and B) in an industry. A possible outcome of the dominant strategy is:

- A) Both firm X and firm Y choose product format A.
- B) Both firm X and firm Y choose product format B.
- C) Firm X would be willing to choose product format A as long as firm Y simultaneously would be willing to choose format A.
- D) Firm X would be willing to choose product format A, while firm Y simultaneously would be willing to choose format B.

Answer: D

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: Revised

23)

		Firm Y's Format	
		A	B
Firm X's Format	B	1, 1	10, 7
	A	10, 7	2, 2

Refer to the above payoff matrix for the profits (in \$ millions) of two firms (X and Y) and two product formats (A and B) in an industry. The game with the dominant strategy is also called:

- A) the prisoners' dilemma. B) Tweedle Dee–Tweedle Dum.
C) Battle of the Sexes. D) Tit–for–Tat.

Answer: C

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

24) Which of the following would NOT be an adequate description of the relationship between Blu-Ray discs and Blu-Ray disc players?

- A) They are compatible. B) They are complementary.
C) They involve network effects. D) They are substitutable.

Answer: D

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Reflective thinking skills

Question Status: Previous Edition

25) Which of the following is the reason why the product incompatibility strategy worked for Apple's iPod in the media industry but did not work for Sony's Beta videocassettes in the videocassette industry?

- A) Both media and videocassette industries were subject to positive market feedback.
B) Both media and videocassette industries were subject to negative market feedback.
C) The media industry was subject to positive feedback but the videocassette industry was subject to negative market feedback.
D) The media industry was subject to negative market feedback but the videocassette industry was subject to positive market feedback.

Answer: C

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 26) A Tweedle Dee–Tweedle Dum game situation occurs when
- A) two firms choose incompatible product formats.
 - B) two firms choose compatible product formats.
 - C) two firms produce products that are complementary to each other's products.
 - D) the game is a positive sum.

Answer: A

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

Question Status: Previous Edition

- 27) Which of the following provides firms incentives to work together to develop one common product format?
- A) a Tweedle Dee–Tweedle Dum game
 - B) a Battle of the Sexes game
 - C) prisoners' dilemma
 - D) none of the above

Answer: B

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

Question Status: Previous Edition

- 28) "A firm should always make complementary products incompatible with those of other firms." Do you agree or disagree? Why?

Answer: Disagree. Selling products incompatible with those of other firms raises the price elasticities of demand for the firm's complementary products. However, whether the firm can eventually gain from making incompatible products also depends on the market feedback effect. A firm may lose demand for its products if there is negative market feedback from other products.

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

- 29) According to the textbook, what is the reason for the success of Apple's strategy of opting for product incompatibility for its iPod but the failure of Sony's same strategy for its Beta videocassettes?

Answer: The main reason is the market feedback effect. Apple experienced positive market feedback in the media industry, so that the incompatibility strategy raises the demand of all its products complementary to the iPods. Sony, however, experienced negative market feedback in the videocassette industry, so that more consumers opting for VHS resulted in less demand for Sony's Beta–formatted video products.

Diff: 2

Topic: 26.5 Product Compatibility in Multiproduct Oligopolies Facing Network Effects

AACSB: Analytic skills

Question Status: Previous Edition

26.6 Comparing Market Structures

- 1) A market situation in which there are a few large firms is called
- | | |
|------------------------------|---------------------------|
| A) monopolistic competition. | B) imperfect competition. |
| C) oligopoly. | D) monopoly. |

Answer: C

Diff: 1

Topic: 26.6 Comparing Market Structures

Question Status: Revised

- 2) In industries in which strong network effects exist, which industry structure is likely to emerge?
- | | |
|-----------------------------|--------------|
| A) Perfect competition | B) Monopoly |
| C) Monopolistic competition | D) Oligopoly |

Answer: D

Diff: 2

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Revised

- 3) Game theory is used to explain the pricing behavior of
- | | |
|------------------------------|-------------------------|
| A) monopolies. | B) perfect competition. |
| C) monopolistic competition. | D) oligopolies. |

Answer: D

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Revised

- 4) Strategic dependence is found in
- | | |
|--------------------------------------|---------------------------------|
| A) monopoly markets. | B) oligopolistic markets. |
| C) monopolistic competitive markets. | D) perfect competitive markets. |

Answer: B

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Revised

- 5) A given industry, Z, is such that the 1-firm, 2-firm, 4-firm and 8-firm concentration ratios are the same. Based on this, we can conclude that Industry Z is
- | | |
|----------------------|------------------------------|
| A) pure competition. | B) monopolistic competition. |
| C) oligopoly. | D) pure monopoly. |

Answer: D

Diff: 2

Topic: 26.6 Comparing Market Structures

Question Status: Revised

- 6) Industry X comprises only very few large firms engaged in stiff competition with each other.

Industry X can best be described as

- | | |
|----------------------|------------------------------|
| A) pure competition. | B) monopolistic competition. |
| C) pure monopoly. | D) oligopoly. |

Answer: D

Diff: 1

Topic: 26.6 Comparing Market Structures

Question Status: Revised

- 7) Interdependence is the key characteristic of

- | | |
|-------------------------|------------------------------|
| A) perfect competition. | B) monopolistic competition. |
| C) oligopoly. | D) monopoly. |

Answer: C

Diff: 1

Topic: 26.6 Comparing Market Structures

Question Status: Revised

- 8) A market situation in which there are a few firms that recognize their mutual interdependence is

- | | |
|------------------------------|------------------------|
| A) monopolistic competition. | B) oligopoly. |
| C) monopoly. | D) regulated monopoly. |

Answer: B

Diff: 1

Topic: 26.6 Comparing Market Structures

Question Status: Revised

- 9) A market situation in which there are very few sellers is

- | | |
|---------------|------------------------------|
| A) oligopoly. | B) perfect competition. |
| C) monopoly. | D) monopolistic competition. |

Answer: A

Diff: 1

Topic: 26.6 Comparing Market Structures

Question Status: Revised

- 10) For which market structure do economists have the least precise model of price determination?

- | | |
|---|--|
| A) Perfect competition in the short run | B) Perfect competition in the long run |
| C) Oligopoly | D) Monopoly |

Answer: C

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

11) Product differentiation exists in

- A) oligopolies only.
- B) monopolies only.
- C) monopolistic competition only.
- D) all market structures except perfect competition.

Answer: D

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

12) Other things being equal, which market structure would produce the least output and the highest average product price?

- | | |
|-----------------------------|------------------------|
| A) Monopoly | B) Oligopoly |
| C) Monopolistic competition | D) Perfect competition |

Answer: A

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

13) Other things being equal, which market structure is most likely to yield the greatest industry long-run economic profit?

- | | |
|-----------------------------|------------------------|
| A) Monopolistic competition | B) Oligopoly |
| C) Monopoly | D) Perfect competition |

Answer: C

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

14) In which market structure does a firm have the LEAST influence over the market price?

- | | |
|--------------|-----------------------------|
| A) Monopoly | B) Monopolistic competition |
| C) Oligopoly | D) Perfect competition |

Answer: D

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

15) Product differentiation always exists in

- | | |
|-------------------------|------------------------------|
| A) perfect competition. | B) monopolistic competition. |
| C) oligopoly. | D) monopoly. |

Answer: B

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Firms face downward sloping demand curves in
- A) monopolies only.
 - B) monopolies and oligopolies only.
 - C) monopolies and oligopolies that collude only.
 - D) all market structures except perfect competition.

Answer: D

Diff: 2

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

- 17) If we observe firms earning zero economic profits in the short run, we know that
- A) the industry must be perfectly competitive.
 - B) the industry must be either perfectly competitive or monopolistically competitive.
 - C) there must not be any barriers to entry.
 - D) any market structure is possible since firms under any market structure can earn zero profits at some time.

Answer: D

Diff: 3

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

- 18) The market structure of oligopoly is when
- A) there are a small number of interdependent firms that constitute the entire market.
 - B) there is a single producer of a product.
 - C) there are many producers of a differentiated product.
 - D) there are many producers of a homogeneous product.

Answer: A

Diff: 1

Topic: 26.6 Comparing Market Structures

Question Status: Previous Edition

- 19) The market structure of monopoly exists when
- A) there are a small number of interdependent firms that constitute the entire market.
 - B) there is a single producer of a product.
 - C) there are many producers of differentiated products.
 - D) there are many producers of a homogeneous product.

Answer: B

Diff: 1

Topic: 26.6 Comparing Market Structures

Question Status: Previous Edition

- 20) The market structure of monopolistic competition exists when
- A) there are a small number of interdependent firms that constitute the entire market.
 - B) there is a single producer of a product.
 - C) there are many producers of differentiated products.
 - D) there are many producers of a homogeneous product.

Answer: C

Diff: 1

Topic: 26.6 Comparing Market Structures

Question Status: Previous Edition

- 21) The market structure of perfect competition exists when
- A) there are a small number of interdependent firms that constitute the entire market.
 - B) there is a single producer of a product.
 - C) there are many producers of differentiated products.
 - D) there are many producers of a homogeneous product.

Answer: D

Diff: 1

Topic: 26.6 Comparing Market Structures

Question Status: Previous Edition

- 22) In which market structures is the firm able to earn long-run economic profits?
- A) Perfect competition and monopolistic competition.
 - B) Monopolistic competition and oligopoly.
 - C) Oligopoly and monopoly.
 - D) Monopolistic competition, oligopoly and monopoly.

Answer: C

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

- 23) In which market structures does a firm have at least some ability to set the market price?
- A) Perfect competition and monopolistic competition.
 - B) Monopolistic competition and oligopoly.
 - C) Oligopoly and monopoly.
 - D) Monopolistic competition, oligopoly and monopoly.

Answer: D

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

24) In which market structures do firms engage in nonprice competition?

- A) Perfect competition and monopolistic competition
- B) Monopolistic competition and oligopoly
- C) Oligopoly and monopoly
- D) Perfect competition and monopoly

Answer: B

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

25) In which market structures do firms earn long-term profits of zero?

- A) Perfect competition and monopolistic competition
- B) Monopolistic competition and oligopoly
- C) Oligopoly and monopoly
- D) Perfect competition and monopoly

Answer: A

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

26) In which market structures is there product differentiation?

- A) Perfect competition and monopolistic competition
- B) Monopolistic competition and oligopoly
- C) Oligopoly and monopoly
- D) Perfect competition and monopoly

Answer: B

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

27) Monopolistically competitive markets and oligopolies are similar in that

- A) the number of firms is identical.
- B) the kinked demand curve can be used to analyze the firms' pricing decisions.
- C) there is mutual interdependence amongst the firms.
- D) nonprice competition is a tool used.

Answer: D

Diff: 2

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

- 28) A market with many sellers, no influence over price, no barriers to entry, a homogeneous product, and an absence of non-price competition is known as

A) perfect competition. B) monopolistic competition.
C) oligopoly. D) monopoly.

Answer: A

Diff: 2

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

- 29) A market with many sellers, some influence over price, low barriers to entry, a differentiated product, and non-price competition often taking the form of advertising is known as

A) perfect competition. B) monopolistic competition.
C) oligopoly. D) monopoly.

Answer: B

Diff: 2

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

- 30) A market with few sellers, some influence over price, high barriers to entry, a differentiated product, and non-price competition is known as

A) perfect competition. B) monopolistic competition.
C) oligopoly. D) monopoly.

Answer: C

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

- 31) A market with one seller, considerable influence over price, high barriers to entry, a homogeneous product, and non-price competition to allow for price discrimination is known as

A) perfect competition. B) monopolistic competition.
C) oligopoly. D) monopoly.

Answer: D

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

- 32) Which is FALSE about perfect competition?

A) There are numerous sellers.
B) Market entry and exit is unrestricted.
C) There is no ability to set price.
D) There is considerable product differentiation.

Answer: D

Diff: 1

Topic: 26.6 Comparing Market Structures

Question Status: Previous Edition

33) All of the following are true regarding oligopoly EXCEPT

- A) there are few sellers.
- B) there is some ability to set price.
- C) there is no competition.
- D) entry and exit is partially restricted.

Answer: C

Diff: 1

Topic: 26.6 Comparing Market Structures

Question Status: Previous Edition

34) Which of the following is NOT a characteristic of pure monopoly?

- A) many sellers
- B) considerable price setting ability
- C) restricted ability to enter market
- D) long-run economic profits are possible

Answer: A

Diff: 1

Topic: 26.6 Comparing Market Structures

Question Status: Previous Edition

35) Long-run economic profits are possible under

- A) perfect competition and oligopoly.
- B) monopolistic competition and monopoly.
- C) oligopoly and monopoly.
- D) monopolistic competition and oligopoly.

Answer: C

Diff: 2

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition

36) Retail trade is an example of

- A) perfect competition.
- B) oligopoly.
- C) monopoly.
- D) monopolistic competition.

Answer: D

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Reflective thinking skills

Question Status: Previous Edition

37) Agriculture is an example of

- A) perfect competition.
- B) oligopoly.
- C) monopoly.
- D) monopolistic competition.

Answer: A

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Reflective thinking skills

Question Status: New

38) The college textbooks market is an example of

- A) perfect competition.
- B) oligopoly.
- C) monopoly.
- D) monopolistic competition.

Answer: B

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Reflective thinking skills

Question Status: New

39) A local utility is an example of

- A) perfect competition.
- B) oligopoly.
- C) monopoly.
- D) monopolistic competition.

Answer: C

Diff: 1

Topic: 26.6 Comparing Market Structures

AACSB: Reflective thinking skills

Question Status: New

40) Unrestricted entry and exit into the market is found in

- A) perfect competition and monopolistic competition.
- B) perfect competition and oligopoly.
- C) monopolistic competition and oligopoly.
- D) perfect competition, monopolistic competition and oligopoly.

Answer: A

Diff: 2

Topic: 26.6 Comparing Market Structures

AACSB: Analytic skills

Question Status: Previous Edition