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ECON 102 Goldstein – Final Exam (New Material) – Practice Exam Solutions

1. B
2. D
3. C – All products are identical (homogenous) in perfect competition so there is no such thing as brand preference.
4. C – Breakeven is another way of saying they will earn zero profit.
5. A
6. C – Since price is constant in perfect competition, marginal revenue and price are the same thing.
7. B – In perfect competition $MR = P$. The firm will produce where $MR = MC$. A firm will be earning zero profit when the ATC is tangent to the demand curve at the point where the demand curve intersects MC because this is the point where $P = ATC$. (Marginal cost pricing)
8. C – Since we found the price of \$7 is the point where profit is \$0, that means any price below \$7 will have a negative profit.
9. D – When this is true we should shut down operations.
10. B – If the farmer shuts down the only costs he will have will be his fixed costs.
11. D
12. C
13. A
14. C – This is another way of saying that firms will earn a profit of zero.
15. A
16. C – Firms in perfect competition are considered to be price takers. In the long run in perfect competition, firms will earn zero economic profit.
17. A
18. D – Remember that the average revenue curve is the same thing as the demand curve for monopolist.

19. A
20. D – The monopolist should reduce output and raise price until $MR = MC$.
21. B – ATC is greater than price at the point where $MR = MC$.
22. D
23. C – Remember that **maximizing revenue is different than maximizing profit**. Firms maximize profit at the point where $MR = MC$. However, maximizing revenue means that you are just trying to earn as much revenue as possible and you aren't concerned about the level of your costs. You maximize revenue by producing at the point where $MR = 0$ because that means you have gotten all of the revenue you can and if you sell any more units you will have negative MR.
24. C – This problem has to do with the social costs of monopolies covered in the review. The perfect competition graph doesn't look like this, but if it did we would produce where MC intersects the demand curve. Don't overthink why the graph changed, just know if you have a question on perfect competition and see a graph like this perfect competition will produce where $MC = D$. In short, $D = MR$ in PC, therefore the Monopoly demand curve can be a substitute for the equivalent MR curve in PC.
25. A – A monopoly will produce where $MR = MC$.
26. A
27. B
28. C
29. A – Price is greater than ATC at the point where $MR = MC$.
30. B
31. D – 3rd Degree Price Discrimination is market segmentation, B is example of Perfect Price Discrimination
32. A – This is the quantity where $MR = MC$.
33. A – To find price we find where $MR = MC$ and then WE GO UP TO THE DEMAND CURVE and then over to find price.
34. A – At the quantity Q1 price is greater than ATC.
35. C
36. D
37. A – Perfect price discrimination is economically efficient because there is no DWL and it is desirable for producers because they will maximize their profits. It is inequitable for consumers because some people will have to pay really high prices and others will pay really low prices. So it is good for some consumers and bad for others.

38. A – Price is greater than ATC at the point where $MR = MC$.
39. D
40. D
41. C
42. C
43. B
44. C
45. C
46. D
47. C
48. D – See ‘Strategic Interdependence’
49. B – Note that answer choice D is not correct, or at least not the best answer, because firms in monopolistic competition do not generally strategically interact. We did say that monopolistically competitive firms might strategically interact with the competitors that produce products most similar to their own a little, but this is more of a side note than an absolute rule. All firms in monopolistically competitive markets have downward sloping demand curves so B is the best answer. Make sure to keep this question in mind on your exam. You always want to pick the best answer.
50. B
51. C
52. C
53. D
54. B
55. C
56. D
57. B – The HHI gives us more accurate insight into the concentration of industries
58. A – Duopoly is an industry with only two firms. The sum of the squares $50^2 \times 50^2 = 5,000$

59. No

What will Firm #1 do if Firm #2 chooses left? Select bottom because $20 > 16$.

		Firm #2	
		Left	Right
Firm #1	Top	16 28	
	Bottom	20 16	

What will Firm #1 do if Firm #2 chooses right? Select top because $32 > 28$.

		Firm #2	
		Left	Right
Firm #1	Top		32 36
	Bottom		28 24

Firm #1 does not have a dominant strategy. Firm #1 will go bottom if Firm #2 goes left; however, Firm #1 will go top if Firm #2 goes right.

60. Yes, Right

What will Firm #2 do if Firm #1 chooses top? Select right because $36 > 28$.

		Firm #2	
		Left	Right
Firm #1	Top	16 28	32 36
	Bottom		

What will Firm #2 do if Firm #1 chooses bottom? Select right because $24 > 16$.

		Firm #2	
		Left	Right
Firm #1	Top		
	Bottom	20 16	28 24

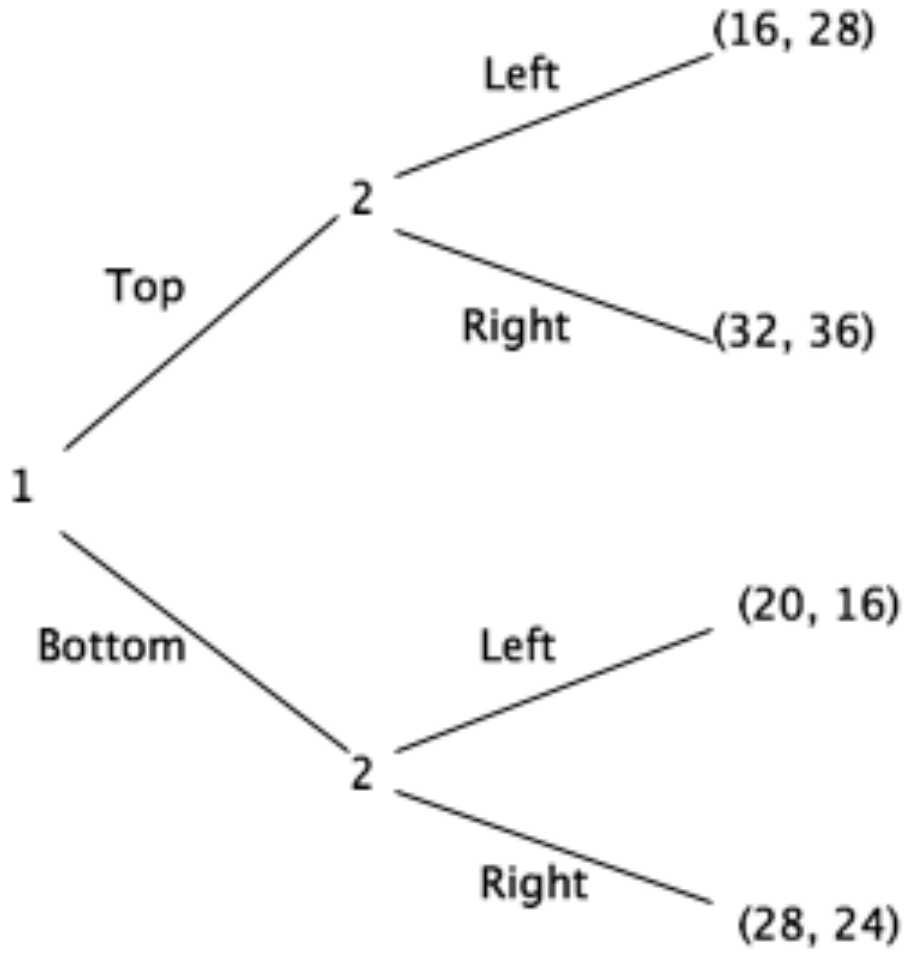
Firm #2 has a dominate strategy to select right. Firm #2 will choose right when Firm #1 chooses top or bottom.

61. Top-Right

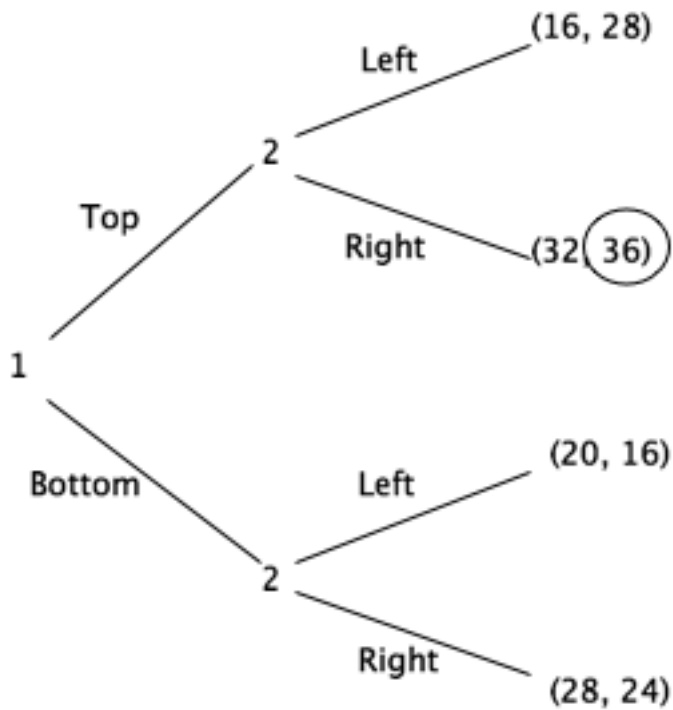
		Firm #2	
		Left	Right
Firm #1	Top	16 28	32 36
	Bottom	20 16	28 24

62. Top-Right

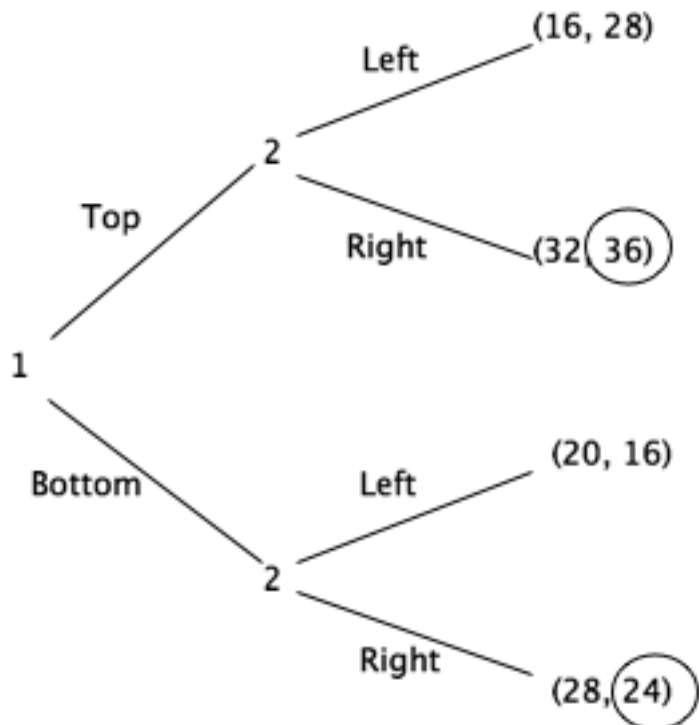
First, you need to turn the table into a decision tree where Firm #1 goes first.



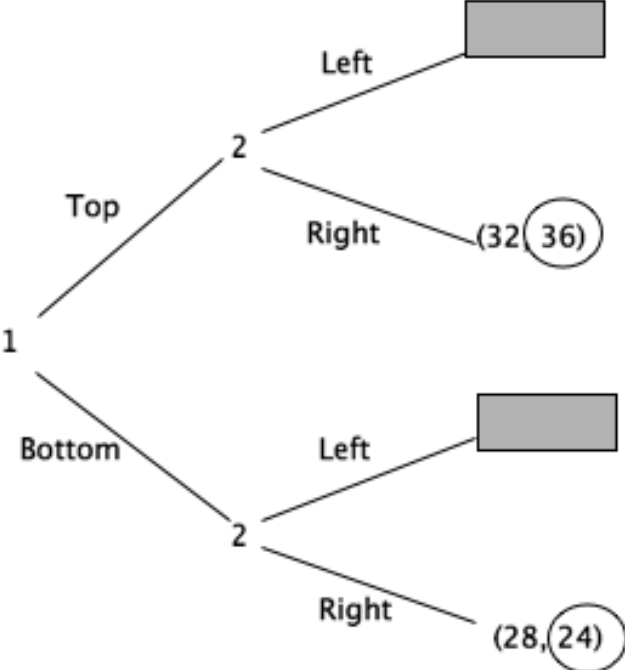
What will Firm #2 do if Firm #1 selects top? Firm #2 will select right because $36 > 28$.



What will Firm #2 do if Firm #1 select bottom? Firm #2 will select right because $24 > 16$.



Firm #1 knows that Firm #2 will always select right – This means that top-left and bottom-left are not possible options for Firm #1.



Firm #1 will select top because $32 > 28$ – Firm #1 selects the highest payoff based on the knowledge that top-left and bottom-left are not possible outcomes.

