

Write your name on the cover of the test booklet and nowhere else. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 170 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. I can give extra time, but not much.

1) (10 points each) Answer TWO of the following parts.

A) Why isn't $MR = P$ for most firms?

B) Why do all firms set $MR = MC$?

C) If the exchange rate started as C\$1.5/US\$ and ended at US\$0.5/C\$, then which currency appreciated? Would American consumers like or dislike this? Why?

2) (16 points) Answer EITHER Part A OR Part B.

A) Suppose that an industry currently has a Herfindahl-Hirschman Index of 1700. Two firms, with 10% and 6% of the market are thinking about merging? If the Department of Justice follows its own guidelines, will they be allowed to merge? Show all work and explain how you reached your decision.

B) The Department of Justice does not always follow its own guidelines. Use an example to explain why they may not.

3) (24 points) Answer EITHER Part A OR Part B.

A) Draw the demand for a dominant firm facing a competitive fringe. Explain how it gets its shape. Derive the marginal revenue curve. Explain why it takes its shape. Find the equilibrium price, quantity the dominant firm sells, and the quantity the fringe sell.

B) Draw a diagram which proves that monopolies do not have supply curves. Explain how it proves it.

4) (40 points) Answer EITHER Part A OR Part B.

A) Suppose that the industry demand curve for a Cournot Duopoly is given by $P = 130 - 5Q$. The firms have a marginal cost curve given by $MC = 10$. Draw the industry demand and derive the firm demand curve. Use that diagram to derive one firm's best response function. Find the equilibrium outputs of the two firms, and the price they sell it for. Show all work and briefly explain what you did.

B) Draw the SRATC/SRAVC/SRMC/D/MR diagram for a monopolistically competitive firm which is losing money but staying in business. State how you know they are losing money but staying in business. Show what will occur over time. Explain why the curve(s) moved as drawn. If the slope changed tell me why it changed, and if it did not change, tell me why it did not. Explain how you knew where to stop the curve(s) movement.