

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

Starting next week, my Tuesday/Thursday office hours will change slightly. The 12:15 - 1:15 hours will now be 11:00 - 12:00 providing no committee meeting. I will still have office hours from 1:15 to 1:45. My office hours are posted on [my web page](#).

1) (30 points) Draw the kinked demand curve. Explain why it takes its shape. Find the marginal revenue curve for the firm. Explain how you found it. Why does it cause price rigidity?

2) (30 points) Draw the industry demand, competitive fringe’s supply, the residual demand for a dominate firm, and the dominant firm’s marginal cost curve. Explain how you got the residual demand. Find the dominant firm’s output, the fringes’ output, and the price charged. Explain how you found them.

3) (20 points) Copy the payoff matrix to the right onto your homework sheet. Use it to find the Nash equilibrium or equilibria and the cooperative strategies. Explain how you found both. Does either band have a dominant strategy? Explain your logic.

Question #3		Mustard Plug	
		High Price	Low Price
Less Than Jake	High Price	13 14	11 17
	Medium Price	4 12	8 18

4) (20 points) Copy the payoff matrix below onto your homework sheet. Use it to find the Nash equilibrium or equilibria and the cooperative strategies. Explain how you found both. Does either band have a dominant strategy? Explain your logic.

Question #4		Mustard Plug	
		High Price	Low Price
Less Than Jake	High Price	13 10	11 9
	Medium Price	4 12	8 18