

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.

1) (25 points) Draw the kinked demand curve diagram. Explain how you got the MR curve. Use the diagram to show why firms may not change their prices even when their costs of production go up and go down. What is the economic reason for not changing the price charged?

2) (35 points) Draw the industry demand, supply curve for the fringe, and marginal cost curve for the dominant firm facing a competitive fringe. Derive the dominant firm's demand and marginal revenue curves. Explain how you found them. Find their output, price charged, and the fringe's output. State how you found them.

3) (20 points) Using the payoff matrix to the right, find all of the following if they exist. Briefly explain how you found them. If they do not exist, state how you can tell: Nash equilibrium(a), dominant strategies for both companies, safe (secure or maximin) strategies for both firms, and the cooperative pricing.

		Coke	
		High Price	Low Price
Pepsi	High Price	13 17	12 11
	Low Price	15 16	14 18

4) (10 points) What is price leadership and why is it illegal?

5) (10 points) Why are cartels illegal?