

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 10 points. 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) Use a graph to prove that a monopoly does not have a supply curve. Explain your logic. (The same proof applies to all firms with a downward sloping demand curve.)

2) (15 points) Without using any graphs, explain why an oligopoly which is colluding would want a small output for the group, but every firm will want to produce more than their allotment.

3) (15 points each) Answer each part in a different paragraph. For each of the following, determine which industry would have collusion more likely to be successful. Explain your logic.

A) An industry has low barriers to entry vs. one which has high barriers to entry.

B) An industry where products are customized or where products are standard.

4) (10 points) What do you think is the biggest problem with regulating a natural monopoly? Explain why that is a problem.

5) (20 points) Find the Cournot-Nash equilibrium for the following payoff matrix. Explain how you reached that conclusion.

		Pirates	
		High Price	Low Price
Red Sox	High Price	8 9	12 6
	Low Price	3 5	4 7