Homework 3

Econ 201H

Homework 3 reviews the basic monopolistic models and models of economic growth. The results that you "turn in" will simply be a *list of your multiple-choice answers* ((1) d, (2) c, etc.) *in ink or typed*, but you should think carefully about each question using the information and models covered in class and the class notes to determine which of the graphs, if any, are relevant for determining the correct answers.

Figure 1

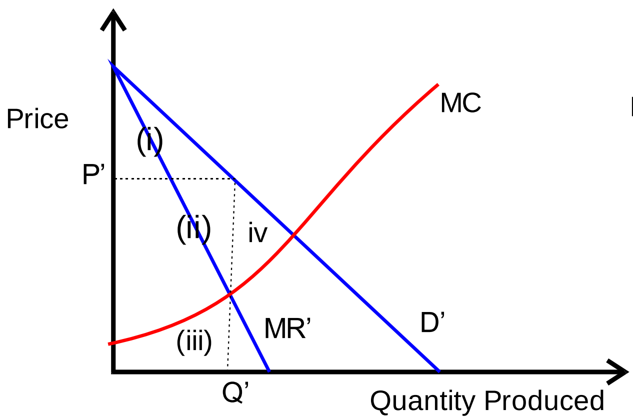
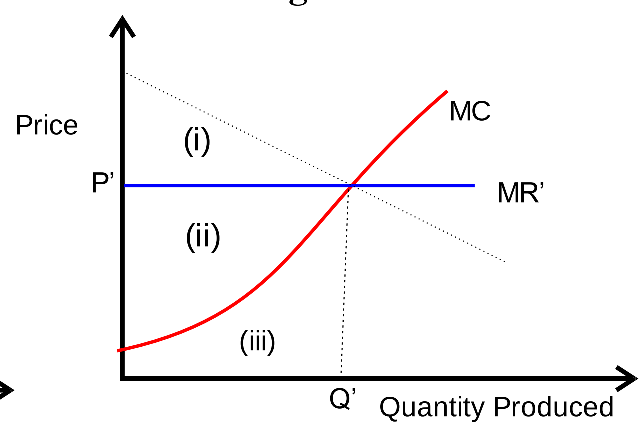


Figure 2



(1) Which of the above figures characterizes a typical "price taking" firm's optimal production of an output?

a. Figure 1
b. Figure 2

(2) In the diagram for the monopolistic firm, how much profit is realized?

a. In Figure 1, area (i)
b. In Figure 2, area (i)
c. In Figure 1, area (ii)
d. In Figure 2, area (ii)
e. None of the above

(3) In the diagram for the monopolistic firm, how much deadweight loss is generated?

a. In Figure 1, area (iii)
b. In Figure 2, area (iii)
c. In Figure 1, area (ii)
d. In Figure 2, area (iv)
e. None of the above

(4) When entry occurs in a monopoly market, which of the following does not usually occur?

a. The monopolist's demand curve shifts to the left.
b. Prices tend to fall
c. Profits tend to fall
d. Profits tend to increase
e. All of the above are common occurrences

(5) Monopolistic Competition involves a diagram similar to ______but with the difference that ________

a. Figure 1, but with the difference that marginal cost is downward sloping
b. Figure 2, but with the difference that marginal cost is downward sloping
c. Figure 1, but with the difference that Demand tends to be flatter (e.g. more price elastic) and profits lower.
d. Figure 2, but with the difference that Demand tends to be flatter (e.g. more price elastic) and total profits higher.
e. Both b and d tend to occur in monopolistically competitive markets.

(6) The "per se" rule in Antitrust law is the claim that:

a. Whenever a merger reduces the number of firms in an industry, such a merger violates antitrust law
b. Whenever a merger reduces the number of firms in an industry, but the MC of production is falling over the range of interest, the firm's pricing decision should be regulated.
c. Whenever a merger reduces the number of firms in an industry, but consumer surplus is likely to be increased by the merger, such a merger violates antitrust law
d. Any effort by any firms in an industry that tends to bankrupt other firms is a violation of antitrust law.

e. None of the above characterize the "per se" rule of antitrust law.

(7) The first wave of neoclassical theories of economic growth developed in the 1950s stress:

a. The effects of increases in the stock of physical capital on the productivity of production and thereby on the overall output of a market..
b. The effects of increases in the stock of human capital on the productivity of economic organizations and thereby on the overall output of a market..
c. The effects of increases in the rate of innovation on both the composition of and overall output of a market..
d. The effects of decreases in the risks and entrepreneurial risk taking on the overall output of a market.
e. None of the above characterize the first wave of Neoclassical growth models

(8) Schumpeter's theory of economic growth emphasizes:

a. Increases in the rate of innovation.
b. Increases in the rate of risk taking.
c. The importance of allocating risk among market participants
d. Greater insight about existing market opportunities
e. None of the above are main elements of Schumpeter's theory.

(9) Frank Knight believes that ______ is an important determinant of unusually high profits in market systems, because _______

a. Innovation, because creative destruction often creates significant economic profits.
b. Uncertainty and risk taking, because profits in competitive markets can only be realized when they are uncertain
c. Capital accumulation, because both human and physical capital tends to make economic organizations more productive
d. High rates of saving, because only savings can produce the capital that drives markets forward.
e. None of the above have anything to do with Knight's theory

(10) Patent laws are argued to increase economic growth rates because:

a. They tend to increase monopoly power
b. They reward individuals with government connections
c. They tend to increase profits
d. They tend to increase rates of innovation
e. C and D are both reasons why patents may increase growth rates.