

i Informasjon

Eksamen

IND200
Økonomi og marked
2021 HØST

Tid

Eksamen starter: 06.12.2021, 09:00
Eksamen avsluttes: 06.12.2021, 13:00

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Innlevering

Innleveringen lukkes automatisk når eksamenstiden er ute.

Lykke til!

i Karacterskala

Gradert karacterskala (A-F)

Ved det teknisk-naturvitenskapelige fakultet skal følgende karaktergrenser benyttes ved sensurering etter prosentpoengsmetoden:

Karakter	%
A	90-100
B	80-89
C	60-79
D	50-59
E	40-49
F	0-39

1 Tax Incidence

Assume the Environmental Protection Agency imposes an excise tax on polluting firms. In which of the following situations would we expect the additional costs to be borne most heavily by consumers?

Velg ett alternativ:

- Demand and supply are both highly inelastic.
- Demand is highly inelastic and supply is highly elastic. ✓
- Demand and supply are both highly elastic.
- Demand is highly elastic and supply is highly inelastic.

Maks poeng: 1

2 Monopoly characteristics

Which phrase would be most characteristic of pure monopoly?

Velg ett alternativ:

- Price taker
- Single seller ✓
- Efficient advertiser
- Close substitutes

Maks poeng: 1

3 Minimum efficient scale

Minimum efficient scale varies by industry.

Velg ett alternativ:

- Usant
- Sant



Maks poeng: 1

4 Profit maximization short run

Output	Total Revenue	Total Cost
0	\$0	\$50
1	40	74
2	80	94
3	120	117
4	160	142
5	200	172

Refer to the table. When the firm produces three units of output, it makes an economic:

Velg ett alternativ:

- loss of \$3.
- profit of \$3.
- profit of \$40.
- profit of \$17.



Maks poeng: 1

5 Arguments for and against income inequality

Refer to the diagrams that show identical marginal utility from income curves for Singer and Catalano. If a given income of \$20,000 is initially distributed so that Singer receives \$15,000 and Catalano \$5,000, the marginal utility:

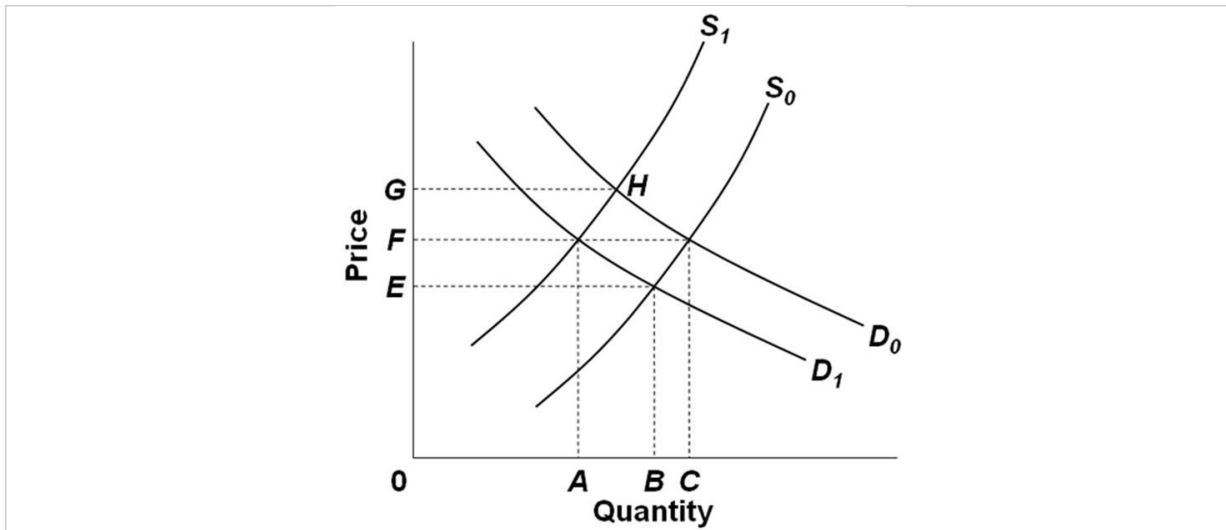
Velg ett alternativ:

- of the last dollar of income will be greater for Catalano than for Singer.
- of the last dollar of income will be the same for both Singer and Catalano.
- of the last dollar of income will be greater for Singer than for Catalano.
- derived from the last dollar will not be comparable between the two income receivers.



Maks poeng: 1

6 Demand and supply model



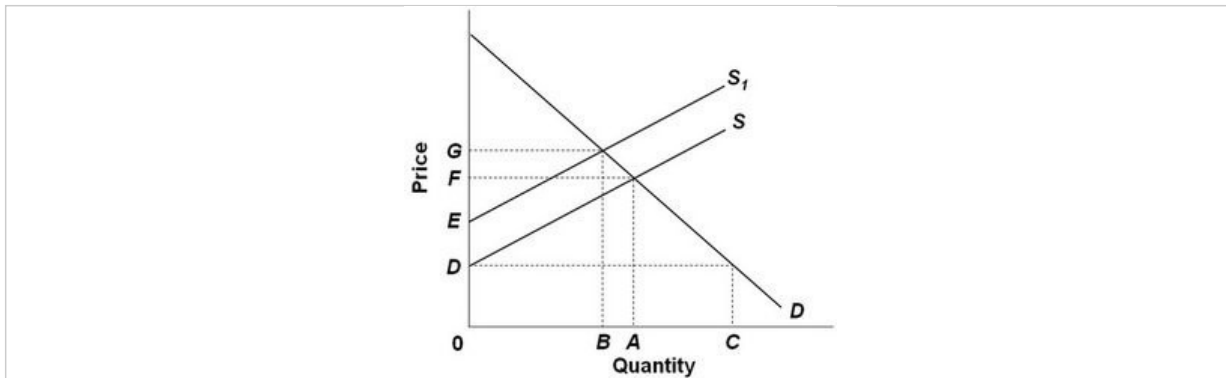
Refer to the above diagram, which shows demand and supply conditions in the competitive market for product X. If supply is S_1 and demand D_0 , then:

Velg ett alternativ:

- 0F represents a price that would result in a surplus of AC.
- 0F represents a price that would result in a shortage of AC. ✓
- at any price above 0G a shortage would occur.
- a surplus of GH would occur.

Maks poeng: 1

7 Externalities



Refer to the supply and demand graph. In the graph, point *A* is the current equilibrium level of output of this product and point *B* is the optimal level of output from society's perspective. *S* is the supply curve without a tax and *S_t* is the supply curve with a tax. The external cost to society from the production of each unit of this product is measured by:

Velg ett alternativ:

- FG.
- DE.
- EF.
- AB.



Maks poeng: 1

8 Consumer sovereignty

The term "consumer sovereignty" means that:

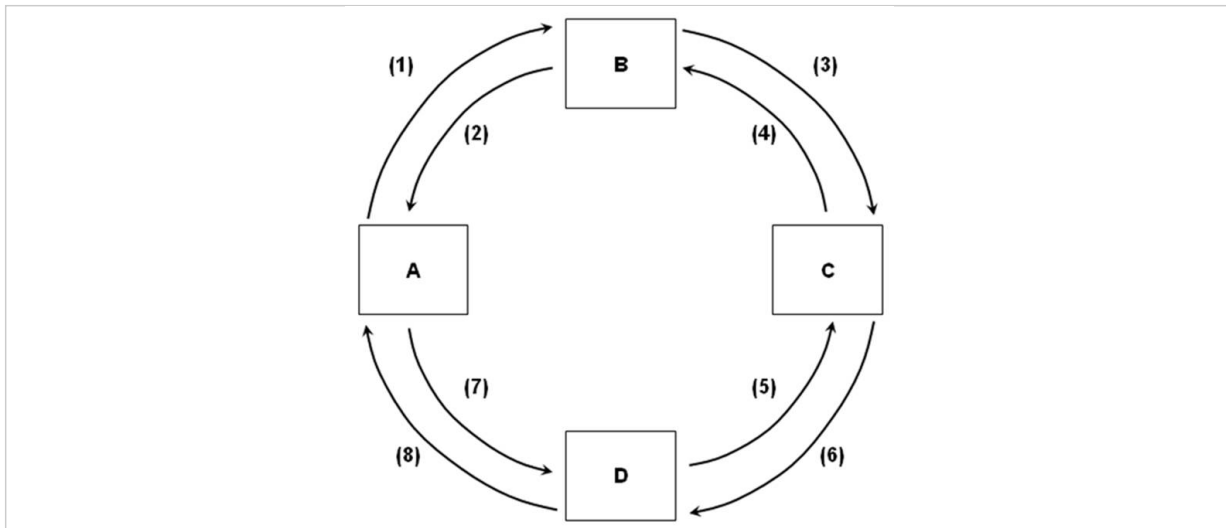
Velg ett alternativ:

- there are no limits on what consumers may buy under capitalism.
- businesses produce with tax minimization as their primary goal.
- what is produced is ultimately determined by what consumers purchase.
- consumers are controlled by the actions of the marketplace.



Maks poeng: 1

9 Circular flow model



Refer to the above figure. If box A represents businesses and box D represents the product market in this circular flow model, then money flow in the model would be represented by:

Velg ett alternativ:

- (1), (2), (3), and (4).
- (5), (6), (7), and (8).
- (7), (5), (4), and (2).
- (1), (3), (6), and (8).



Maks poeng: 1

10 Kinked demand curve

In the kinked-demand model of noncollusive oligopoly, if one firm increases its price, the most likely reaction of the other firms will be to:

Velg ett alternativ:

- decrease their prices.
- increase their prices.
- not change their prices.
- fix prices.



Maks poeng: 1

11 Public goods

Project	Marginal Cost (\$M)	Marginal Benefit (\$M)
1	\$8	\$11
2	11	13
3	18	17
4	28	23

A government is considering undertaking one or more construction projects. The estimated marginal cost and benefit of each project are given in the table.

Refer to the table and information. What is the total amount that the government should spend on construction projects?

Velg ett alternativ:

- \$37 million
- \$19 million
- \$8 million
- \$14 million



Maks poeng: 1

12 Allocative efficiency

Resources are efficiently allocated when production occurs at that output at which:

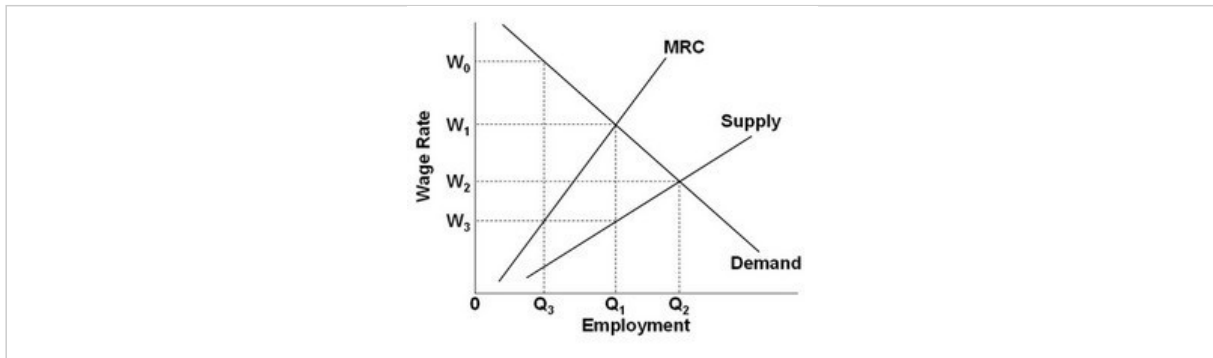
Velg ett alternativ:

- P equals MR.
- P equals MC.
- P equals AVC.
- P exceeds MR.



Maks poeng: 1

13 Wage rate determination



Refer to the graph. Comparing monopsony with pure competition in the sale of output and hiring of labor services, the difference in the wage rate will be:

Velg ett alternativ:

- W0 - W1.
- W1 - W3.
- W1 - W2.
- W2 - W3.



Maks poeng: 1

14 Behavioral economics decision making

Which of the following statements best reflects how a behavioral economist views individual decision making?

Velg ett alternativ:

- Alex makes wrong decisions sometimes, but usually it is only when he has been given bad information.
- Alyssa may appear to care about others, but even her seemingly altruistic behaviors are really about furthering her own interests.
- Balin tries to make good, well-thought-out decisions, but his desire for utility in the present means that he often gives in to costly temptations.
- Kara carefully calculates and weighs the expected benefits and costs of every option before making a decision.

Maks poeng: 1

15 Prospect theory

Suppose that Dairy Barn Foods produces a regular sour cream with 10 grams of fat per serving and a "low fat" sour cream with only 5 grams of fat per serving (assume that this is still considered a lot of fat to consume per serving). According to prospect theory, how should Dairy Barn promote its "low fat" sour cream?

Velg ett alternativ:

- It should advertise that the "low fat" sour cream has only 5 grams of fat per serving.
- It won't matter what strategy Dairy Barn uses, as consumers are sufficiently informed as to not be affected by the advertising.
- It should advertise that the "low fat" sour cream has only "half the fat" of the regular sour cream. ✓
- It should make no mention of fat content, either in absolute terms or relative to its regular sour cream.

Maks poeng: 1

16 Public goods

Project	Marginal Cost (\$B)	Marginal Benefit (\$B)
A	1	2
B	3	3
C	5	7
D	7	8

Assume that a government is considering a new social program and may choose to include in this program any number of four progressively larger projects. The marginal cost and the marginal benefit of each of the four projects is provided in the table.

Refer to the table and information. What are the total costs and total benefits of doing projects A, B, and C?

Velg ett alternativ:

- Total cost is \$16 billion and total benefit is \$20 billion.
- Total cost is \$9 billion and total benefit is \$12 billion. ✓
- Total cost is \$5 billion and total benefit is \$7 billion.
- Total cost is \$4 billion and total benefit is \$7 billion.

Maks poeng: 1

17 Monopoly demand

A firm sells 99 units of output when price equals \$10 and 100 units of output when price equals \$9. Its marginal revenue for the 100th unit of output is negative.

Velg ett alternativ:

- True ✓
- False

Maks poeng: 1

18 Union models

Exclusive unionism has the economic effect of:

Velg ett alternativ:

- increasing the demand for labor.
- strengthening the bargaining position of an industrial union.
- weakening the bargaining position of a craft union.
- decreasing the supply of labor.



Maks poeng: 1

19 Trade theory

According to the principle of comparative advantage, worldwide output and consumption levels will be highest when goods are produced in nations where:

Velg ett alternativ:

- the exchange rate is falling.
- the balance of trade is in a surplus position.
- domestic opportunity costs are lowest.
- inflation rates are low.



Maks poeng: 1

20 Factors that increase or decrease labor demand

Which would decrease a firm's demand for a particular resource?

Velg ett alternativ:

- A decrease in the price of the particular resource
- An increase in the price of the product the resource produces
- An increase in the demand for the firm's product
- A decrease in the productivity of the resource



Maks poeng: 1

21 Production possibility curve

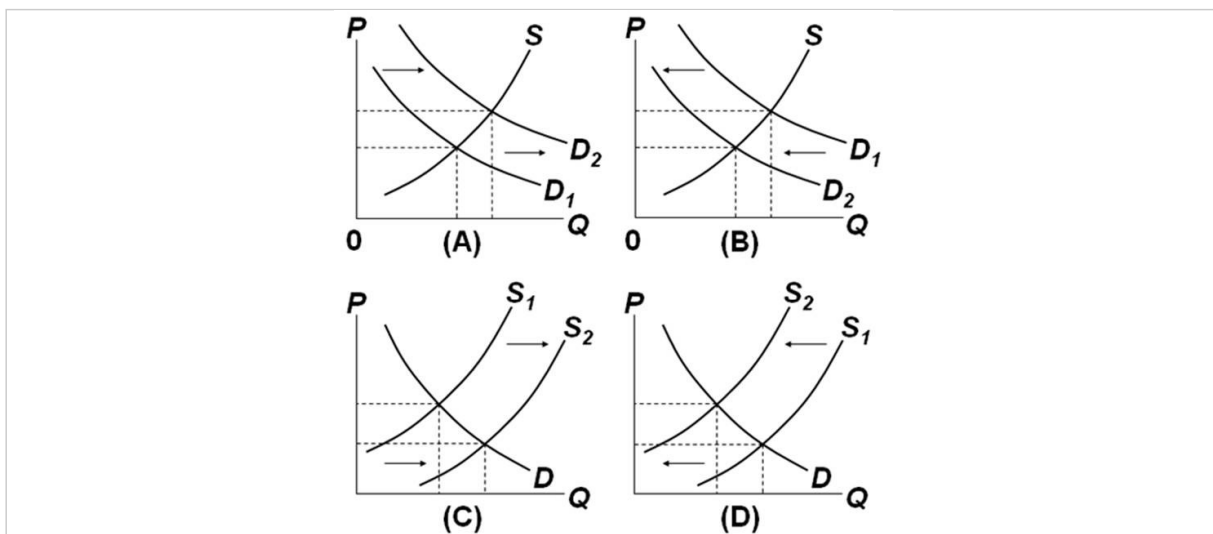
The production possibilities curve bows outward from the origin because:

Velg ett alternativ:

- opportunity costs increase as the production of a good increases. ✓
- more production of one good results in more production of the other good.
- opportunity costs decrease as the production of a good increases.
- resources are not of uniform quality.

Maks poeng: 1

22 Demand and supply model - market for corn



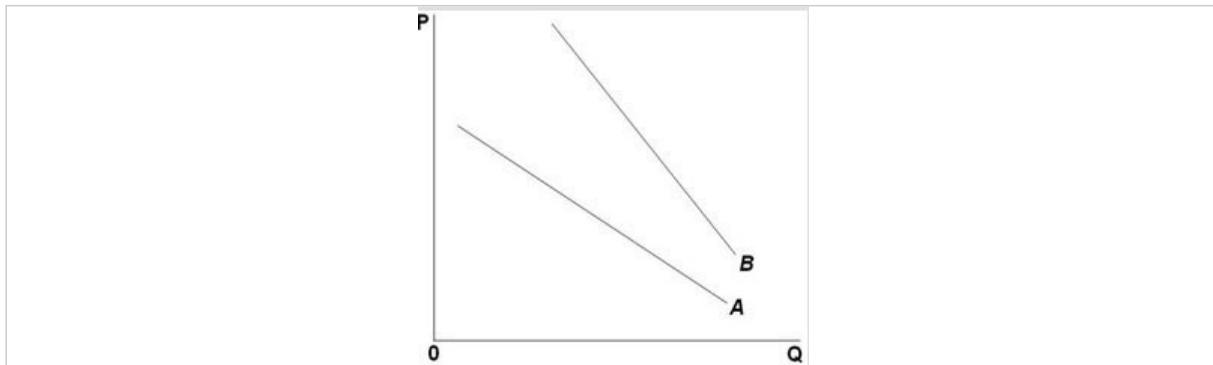
Which of the above diagrams illustrate(s) the effect of a decline in the price of irrigation equipment on the market for corn?

Velg ett alternativ:

- D only
- B only
- B and C
- C only ✓

Maks poeng: 1

23 Price and Output in Monopolistic Competition



Refer to the above graph. A monopolistically competitive firm was initially successful, but then its rivals started an advertising campaign that undercut its market position. This situation would cause the demand curve for the monopolistically competitive firm to shift from:

Velg ett alternativ:

- A to B and become more elastic. ✓
- B to A and become less elastic.
- A to B and become less elastic.
- B to A and become more elastic.

Maks poeng: 1

24 Price rationing

The rationing function of prices refers to the fact that government must distribute any surplus goods that may be left in a competitive market.

Velg ett alternativ:

- False ✓
- True

Maks poeng: 1

25 Law of increasing costs

The marginal cost curve for a product slopes upward as more units are produced because of the law of increasing costs.

Velg ett alternativ:

- Sant ✓
- Usant

Maks poeng: 1

26 Crossprice elasticity

If a 2 percent increase in the price of product X causes the demand for product Y to increase by 6 percent, then:

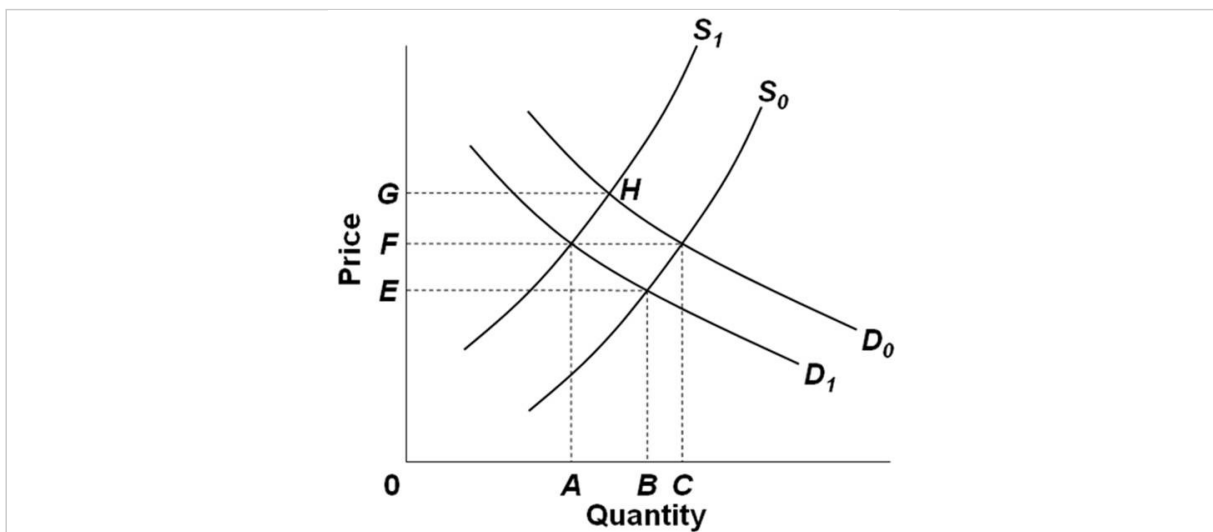
Velg ett alternativ:

- the demand for X is elastic.
- X and Y are substitutes.
- X and Y are independent goods.
- X and Y are complements.



Maks poeng: 1

27 Demand and supply model



Refer to the diagram, which shows demand and supply conditions in the competitive market for product X. If the initial demand and supply curves are D_0 and S_0 , equilibrium price and quantity will be:

Velg ett alternativ:

- 0F and 0A respectively.
- 0F and 0C respectively.
- 0E and 0B respectively.
- 0G and 0B respectively.



Maks poeng: 1

28 The basic economic problem

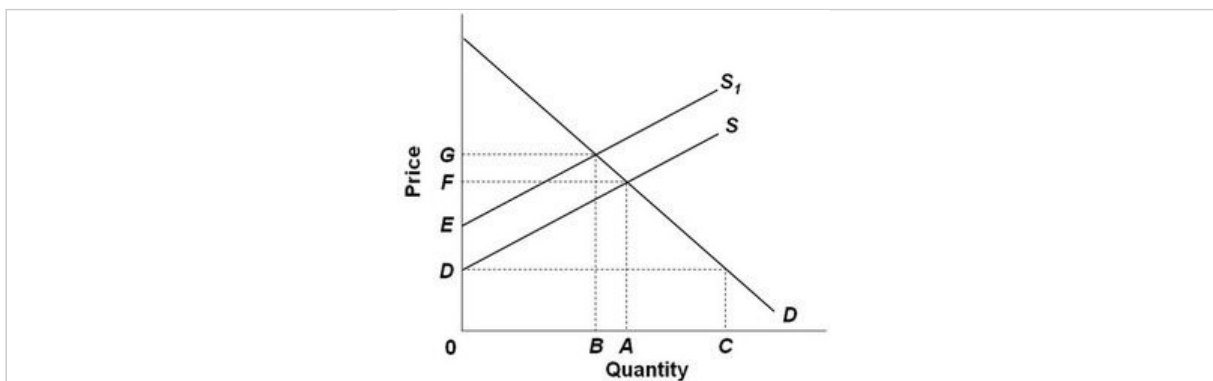
The basic economic problem is essentially one of deciding how to make the best use of:

Velg ett alternativ:

- unlimited resources to satisfy limited economic wants.
- limited resources to satisfy unlimited economic wants. ✓
- limited resources to satisfy limited economic wants.
- unlimited resources to satisfy unlimited economic wants.

Maks poeng: 1

29 Externalities



Refer to the supply and demand graph. In the graph, point *A* is the current equilibrium level of output of this product and point *B* is the optimal level of output from society's perspective. *S* is the supply curve without a tax and *S₁* is the supply curve with a tax. One solution to this externality problem is to:

Velg ett alternativ:

- tax producers by the amount *DE*. ✓
- give consumers a subsidy of the amount *FG*.
- give producers a subsidy of the amount *AB*.
- tax consumers by the amount *EF*.

Maks poeng: 1

30 Property rights

Individual property rights are the right of the government to own, use, and dispose of resources in an economy.

Velg ett alternativ:

- Usant ✓
- Sant

Maks poeng: 1

31 Property rights

Property rights have a positive effect in a market economy because they encourage owners to maintain their property.

Velg ett alternativ:

Sant



Usant

Maks poeng: 1

32 Lorenz curve

The Lorenz curve is helpful in visualizing the:

Velg ett alternativ:

relationship between the prices received and paid by farmers.

trade-off between unemployment and inflation.

degree of inequality in the distribution of income.



relationship between education and income.

Maks poeng: 1

33 The business environment

The major source of production in the economy comes from:

Velg ett alternativ:

partnerships.

sole proprietorships.

conglomerates.

corporations.



Maks poeng: 1

34 Antitrust

One general policy option to deal with a monopoly that obtains its position through anticompetitive actions, exhibits economic inefficiency, and is long lasting is to break up the firm.

Velg ett alternativ:

Sant



Usant

Maks poeng: 1

35 Demand

In moving along a stable demand curve, which of the following is *not* held constant?

Velg ett alternativ:

- Price expectations
- Prices of complementary goods
- Price of the product for which the demand curve is relevant
- Consumer incomes



Maks poeng: 1

36 Supply - negative supply shock oranges in Florida

Because of hurricanes in Florida, the supply of oranges has substantially decreased. This statement indicates that:

Velg ett alternativ:

- the equilibrium quantity of oranges will rise.
- the demand for oranges will necessarily rise
- the price of oranges will fall.
- the amount of oranges that will be available at various prices has declined.



Maks poeng: 1

37 Profit maximization - fixed cost in short run

In the short run, fixed costs are irrelevant in determining a firm's optimal level of output.

Velg ett alternativ:

- Sant
- Usant



Maks poeng: 1

38 Labor demand curve

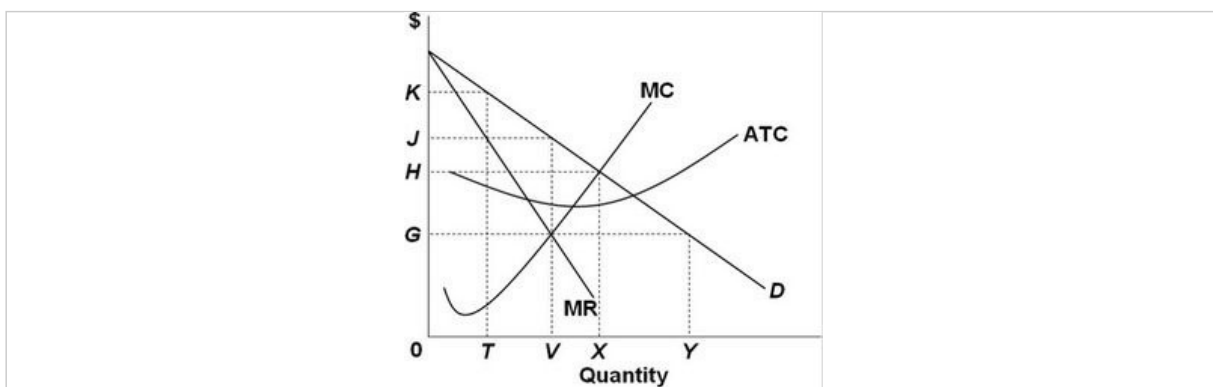
Why is the demand for labor referred to as a "derived" demand?

Velg ett alternativ:

- It arises from the shortages in labor markets.
- It stems from the drive to minimize production costs to achieve economic efficiency.
- It is based on the demand for the output labor produces. ✓
- It results from decreases in the supply of labor.

Maks poeng: 1

39 Monopoly profit maximization



Refer to the graph. The profit-maximizing monopolist shown sets its price and output at:

Velg ett alternativ:

- 0J and 0V, respectively. ✓
- 0H and 0X, respectively.
- 0G and 0Y, respectively.
- 0G and 0V, respectively.

Maks poeng: 1

40 Tax incidence

Suppose that government imposes a specific excise tax on product X of \$2 per unit and that the price elasticity of supply of X is unitary (coefficient = 1). If the incidence of the tax is such that the consumers of X pay \$1.85 of the tax and the producers pay \$0.15, we can conclude that the

Velg ett alternativ:

- supply of X is highly inelastic.
- demand for X is highly elastic.
- demand for X is highly inelastic. ✓
- supply of X is highly elastic.

Maks poeng: 1

41 Demand elasticity measurement

A straight-line downward-sloping demand curve has a price elasticity of demand that:

Velg ett alternativ:

- increases as price decreases.
- is unitary at all prices.
- is zero at all prices.
- decreases as price decreases. ✓

Maks poeng: 1

42 Measurement of income inequality

(1) Personal Income Class	(2) Percentage of All Households in This Class	(3) Percentage of All Households in This and All Lower Classes
Under \$10,000	6	6
\$10,000-\$14,999	5	11
\$15,000-\$24,999	12	23
\$25,000-\$34,999	A	35
\$35,000-\$49,999	16	C
\$50,000-\$74,999	B	72
\$75,000-\$99,999	13	D
\$100,000 and over	15	100

Using the data in the above table, what percentage of households made less than \$15,000?

Velg ett alternativ:

- 23 percent
- 11 percent
- 5 percent
- 6 percent



Maks poeng: 1

43 Behavioral economics

According to the piece "Wannamaker's Lament,"

Velg ett alternativ:

- only 50 percent of new consumer products fail within the first year.
- most marketing efforts have little impact on sales.
- price tags are inefficient signaling mechanisms.
- money-back guarantees are costly to firms because they don't increase sales but do increase costs.



Maks poeng: 1

44 Internalizing cost of pollution

An emission fee levied against polluters will tend to:

Velg ett alternativ:

- externalize the internal cost of pollution.
- internalize the internal cost of pollution.
- externalize the external cost of pollution.
- internalize the external cost of pollution.



Maks poeng: 1

45 Comparative advantages

Product	Germany Production Possibilities Table					
	A	B	C	D	E	F
Autos	0	4	8	12	16	20
Chemicals	40	32	24	16	8	0

Product	U.S. Production Possibilities Table					
	A	B	C	D	E	F
Autos	0	3	6	9	12	15
Chemicals	60	48	36	24	12	0

Refer to the tables. If Germany and the United States engage in trade, the terms of trade will be between:

Velg ett alternativ:

- 2 and 4 units of autos for 1 unit of chemicals.
- 2 and 4 units of chemicals for 1 unit of autos.
- 3 and 4 units of autos for 1 unit of chemicals.
- .33 and .5 unit of autos for 1 unit of chemicals.



Maks poeng: 1

46 Abatement cost

Quantity of Pollution Abatement	Marginal Cost	Marginal Benefit
900 tons	\$400,000	\$100,000
800 tons	300,000	150,000
700 tons	200,000	200,000
600 tons	100,000	250,000
500 tons	50,000	300,000

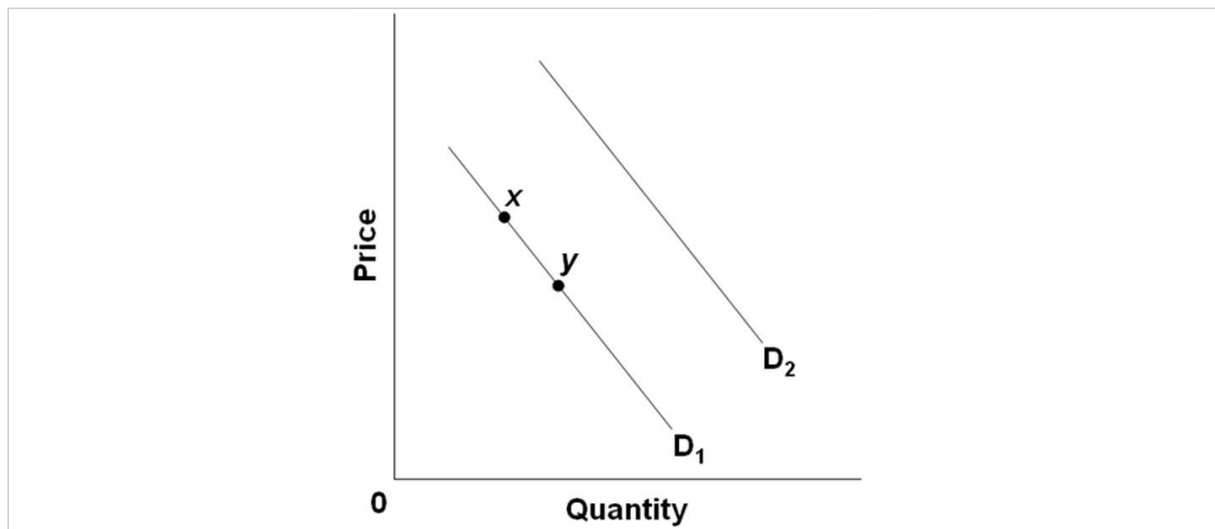
The data in the table show the marginal costs and marginal benefits to a city for five different levels of pollution control. Refer to the table. What would cause the optimal level of pollution abatement to be 600 tons?

Velg ett alternativ:

- An increase in marginal benefits by \$200,000 at each level.
- An increase in marginal costs by \$150,000 at each level. ✓
- A decrease in marginal benefits by \$100,000 at each level.
- A decrease in marginal costs by \$150,000 at each level.

Maks poeng: 1

47 Demand shift



Refer to the diagram for good X. A shift from D_2 to D_1 would best be explained by:

Velg ett alternativ:

- a decrease in the price of good X.
- an increase in the price of a substitute good Z.
- an increase in the price of good X.
- an increase in the price of a complementary good Y. ✓

Maks poeng: 1

48 Income elasticity measurement

A consumer's weekly income is \$300 and the consumer buys 5 bars of chocolate per week. When income increases to \$330, the consumer buys 6 bars per week. The income elasticity of demand for chocolate by this consumer is about:

Velg ett alternativ:

- 1.
- 2.
- 0.
- 0.5.



Maks poeng: 1

49 Behavioral economics strategy

Which of the following supermarket strategies to increase sales would be most consistent with a behavioral economics (versus neoclassical economics) approach?

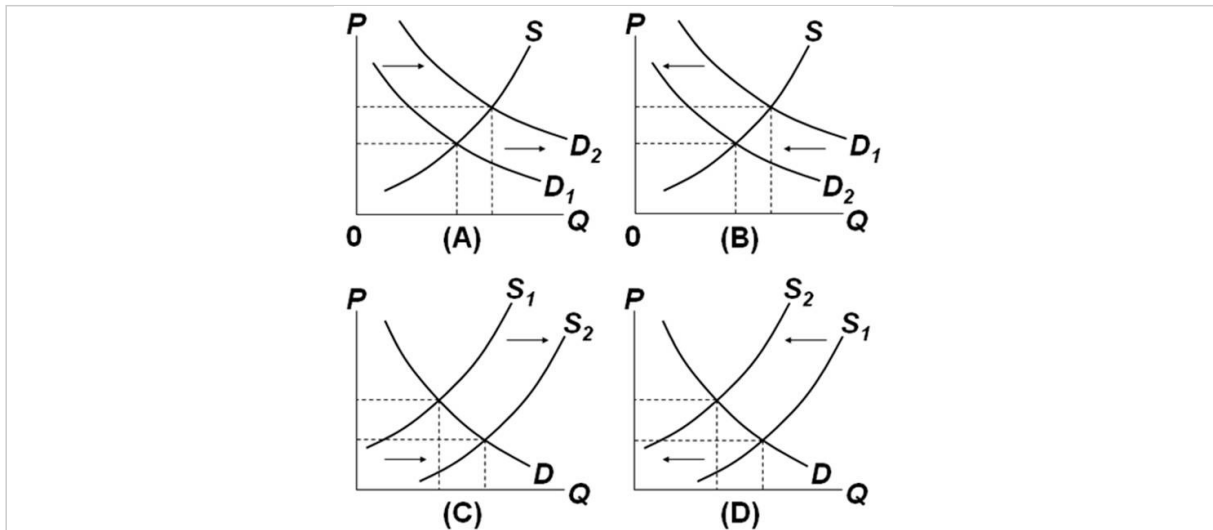
Velg ett alternativ:

- Positioning frequently purchased items at the back of the store
- Distributing online coupons
- Providing discounts for buying in bulk
- Offering price matching with other stores



Maks poeng: 1

50 Demand and supply model - market for beers



Which of the above diagrams illustrate(s) the effect of an increase in the price of Budweiser beer on the market for Coors beer?

Velg ett alternativ:

- A only
- C only
- A and C
- B only



Maks poeng: 1

51 Industries and firm organization

If a company owns plants at various stages of the production process, this is called:

Velg ett alternativ:

- an industry.
- a vertically integrated firm.
- a multiplant firm.
- a conglomerate.



Maks poeng: 1

52 Heuristics

Heuristics

Velg ett alternativ:

- are rules of thumb that generate decisions that generally maximize net benefits.
- always waste mental resources by leading people to suboptimal outcomes.
- are shortcuts that save time and energy in decision making. ✓
- take a long time to develop and are therefore avoided by rational decision makers

Maks poeng: 1

53 Economic systems

A basic characteristic of a command system is that:

Velg ett alternativ:

- government planners play a limited role in deciding what goods will be produced.
- wages paid to labor are higher.
- markets function mostly free from government intervention.
- government owns most economic resources. ✓

Maks poeng: 1

54 Marginal product

Number of Workers	Units of Output
0	0
1	40
2	90
3	126
4	150
5	165
6	180

Refer to the data. Average product is at a maximum when:

Velg ett alternativ:

- four workers are hired.
- three workers are hired.
- five workers are hired.
- two workers are hired. ✓

Maks poeng: 1

55 Economics described

Economics can best be described as the study of:

Velg ett alternativ:

- how business structures influence the allocation of income among firms.
- how people, institutions, and society make choices under conditions of scarcity. ✓
- how to use productive resources to maximize income level.
- how to increase the level of productive resources so there is maximum output in society.

Maks poeng: 1

56 Measurement of income inequality

(1) Personal Income Class	(2) Percentage of All Households in This Class	(3) Percentage of All Households in This and All Lower Classes
Under \$10,000	6	6
\$10,000-\$14,999	5	11
\$15,000-\$24,999	12	23
\$25,000-\$34,999	A	35
\$35,000-\$49,999	16	C
\$50,000-\$74,999	B	72
\$75,000-\$99,999	13	D
\$100,000 and over	15	100

Using the data in the table, what percentage of households made \$75,000-\$99,999?

Velg ett alternativ:

- 85 percent
- 11 percent
- 13 percent ✓
- 16 percent

Maks poeng: 1

57 Behavioral economics assumptions

Which of the following assumptions about human behavior is most likely to be accepted by behavioral economists?

Velg ett alternativ:

- People have preferences that are unstable and vary by context. ✓
- People plan out decisions well and possess lots of willpower.
- People are almost entirely self-interested in their behavior.
- People eagerly and accurately calculate the benefits and costs of their decisions.

Maks poeng: 1

58 Characteristics of Oligopoly

The characteristic most closely associated with oligopoly is:

Velg ett alternativ:

- a few large producers. ✓
- easy entry into the industry.
- no control over price.
- product standardization.

Maks poeng: 1

59 Average fixed costs

Average fixed costs diminish continuously as output increases.

Velg ett alternativ:

- Sant ✓
- Usant

Maks poeng: 1

60 Characteristics of monopolistic competition

In which industry is monopolistic competition most likely to be found?

Velg ett alternativ:

- Automobiles
- Retail trade
- Agriculture
- Utilities



Maks poeng: 1

61 Calculus - market equilibrium 1a

Assume the demand function is $Q^D(P) = 100 - 1.5P$ and the supply function is $Q^S(P) = -20 + 0.9P$. What is the equilibrium quantity?

Velg ett alternativ:

- 30
- 25
- 20
- 35



Maks poeng: 2

62 Calculus - market equilibrium 1b

Assume the demand function is $Q^D(P) = 100 - 1.5P$ and the supply function is $Q^S(P) = -20 + 0.9P$. In equilibrium, what is the supply elasticity?

Velg ett alternativ:

- 0.8
- 1.4
- 1.2
- 1.8



Maks poeng: 2

63 Calculus - tax incidence 1c

Assume the demand function is $Q^D(P) = 100 - 1.5P$ and the supply function is $Q^S(P) = -20 + 0.9P$. Due to pollution the government imposes a tax equal to $t=5$ per unit produced. Measured in %, what is the incidence of tax on consumers ?

Velg ett alternativ:

- 26%
- 34%
- 38%
- 24%



Maks poeng: 6

64 Calculus - monopoly 1a

A monopoly has a demand for its good that can be expressed as $Q^D(P) = 200 - 0.8P$, where Q^D is quantity demanded and P is the price for the good. The cost for producing Q units of the good is $C(Q) = 2000 + 100Q$. What is the expression for the marginal revenue facing the monopoly?

Velg ett alternativ:

- $200Q - 0.8Q^2$
- $200 - 0.8Q$
- 0.8
- $200 - 1.6Q$



Maks poeng: 2

65 Calculus - monopoly 1b

A monopoly has a demand for its good that can be expressed as $Q^D(P) = 200 - 0.8P$, where Q^D is quantity demanded and P is the price for the good. The cost for producing Q units of the good is $C(Q) = 2000 + 100Q$. For the monopoly, what is the profit maximising price?

Velg ett alternativ:

- 50
- 55
- 45
- 60



Maks poeng: 2

66 Calculus - monopoly 1c

A monopoly has a demand for its good that can be expressed as $Q^D(P) = 200 - 0.8P$, where Q^D is quantity demanded and P is the price for the good. The cost for producing Q units of the good is $C(Q) = 2000 + 100Q$. Assume the demand shift negatively because of lower income in households. The new demand function is $Q^D(P) = 160 - 0.8P$. What is the reduction in profits from the original to the new demand function?

Velg ett alternativ:

- 5000
- 1200
- 3800
- 2500



Maks poeng: 6

67 Essay question - Monopoly power

Explain with your own words why a business with monopoly power can earn higher profits by charging customers different prices for the same product. Also explain what must be true for this strategy to be succesful. (Answer length max 300 words)

Skriv ditt svar her

Format | ↺ | ✎ | Σ | ✕

Firms with monopoly power can earn higher profits by using price discrimination. Consumers have different willingness to pay for a product based on their preferences and income. Provided that a firm can correlate groups with their willingness to pay then in principle it is possible to earn higher profits by charging consumers different prices. The key idea to raise profits is by selling more units, but where the differentiated pricing captures more consumer surplus by matching price level with willingness to pay.

Ideally the firm would price each consumer according to their individual willingness to pay. This corresponds to perfect price discrimination. However, this is usually not feasible as it both requires perfect insight into willingness to pay and the ability to price discriminate.

The three conditions for price discrimination are:

- 1) Some degree of monopoly power
- 2) The opportunity to segregate different segments that have different willingness to pay (i.e., different demand elasticities and demand levels)
- 3) The opportunity to hinder resale between the groups.

Words: 0

Maks poeng: 10

68 Essay question - Competitive market

Explain why in a competitive market the market demand curve is downward sloping, while the demand curve facing the individual firms are horizontal. (Answer length max 300 words)

Skriv ditt svar her

Format | ↺ | ✎ | Σ | ✕

The reason why the market demand curve is downward sloping is because the law of demand: When the price increases demand reduces. The law of demand can be linked to diminishing marginal utility of consumption of a particular good, which are also reflected in the substitution effect and the income effect associated with price changes. This imply that any market demadn, whether characterised by perfect competition, oligopoly, or monopoly will be downward sloping.

Since the firms in competitive market are small relative to the total supply, they are assumed to have zero influence over the market price. Hence, the demand curve facing the individual firms is simply the market price (i.e., the equilibrium price). Given the limited capacity to produce in each individual firm, they can sell the amount they wish to the market price.

The market price can fluctuate, which means the demand facing the individual firm is not constant, but at all times will be horizontal to reflect the zero influence of the firm on market price.

Words: 0

Maks poeng: 10