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MLM Regulation & Competition

Exam Example 2

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Select the correct answer for each of the questions listed:

1. A monopoly:
   a. Maximizes profit, unlike a company operating in a competitive market
   b. Produces all units for which marginal revenue is greater than marginal cost
   c. Produces more than if it operated in a competitive market
   d. Faces a very elastic demand

2. A natural monopoly:
   a. Unlike a lucrative monopoly, it is efficient
   b. It's inefficient, like a lucrative monopoly
   c. It has a technology with diminishing returns
   d. It does not need to be regulated, unlike a lucrative monopoly

3. We say that a change in the economy is a Pareto movement if
   a. Gains outweigh losses
   b. Those who gain from the change make up for those who lose
   c. Nobody loses
   d. Most citizens benefit

4. If a regulator fixes excessively low prices
   a. In the long run eliminates incentives for R&D and undermines innovation and technological progress
   b. In the long run innovation promotes technological progress
   c. Benefits entry to potential competitors
   d. In the short term hurts consumers

5. The autonomy and independence of regulators from the state
   a. Guarantees no “à la Stigler” capture from regulators
   b. Promotes accountability of regulators
   c. It aims to ensure the intertemporal consistency of regulatory decisions
   d. It makes no sense when it comes to natural monopolies

6. A market is contestable if:
   a. There is only one company
   b. There are no sunk costs associated with leaving,
   c. Is protected from competition
   d. Entry is costless
   e. Entry is free and there are no sunk costs associated with exit

7. If a regulator sets excessively low prices

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a. In the long run eliminates incentives for R&D and undermines innovation and technological progress
b. In the long run innovation promotes technological progress
c. Benefits entry to potential competitors
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8. The following are arguments against regulators' exclusive weighting of consumer surpluses
a. Asymmetry between consumers and businesses in their ability to lobby
b. Companies have foreign shareholders
c. Information asymmetry between business and authority (which in itself tends to favor business)
d. None of the options

9. Barriers to entry are
a. Production costs that have to be borne by companies already operating in the sector and not borne by "incoming" companies
b. Sunk costs (advertising, investments in specific infrastructure)
c. Scale diseconomies
d. None of the previous

10. A company's market power
a. It is bigger the more elastic demand is
b. Is smaller the more elastic demand is
c. The smaller the difference between prices and marginal costs.
d. None of the previous

11. A Coase tariff or two-party tariff promotes the efficient quantity if
a. Demand for access to the good is elastic
b. Demand for access to the good is inelastic
c. Allow price to drop to average cost level
d. None of the previous

12. Ramsey Prices
a. Promote equity
b. Have the problem of not guaranteeing break-even.
c. Are easy to apply because they require little information
d. Are higher for goods with a more inelastic demand

13. Regulation of the rate of return on capital
a. Is a particular case of cost-plus regulation
b. Is strong from an incentive standpoint
c. Does not guarantee the break-even of the firm
d. d. None of the previous

14. In the SSNIP Test
a. The price level from which to assess whether the firm can profitably raise its price should be the competitive price level.

b. The price level from which to assess whether the firm can profitably increase the price should be the actual price.
c. It serves to test joint dominance
d. None of the previous

15. Ease of Entry
   a. Is largely dependent on the existence of sunk, endogenous (advertising, R&R) or exogenous (investment) costs.
   b. Other factors that determine ease of entry are switching costs, network externalities

16. Predatory pricing
   a. In order to be effective in preventing market entry or forcing out competitors has to be extended for a long time.
   b. If competitors are as efficient as the incumbent, for them to have losses this must also have
   c. To survive competitors, incumbents have to have either better financial resources (deeper pockets), or easier access to the capital markets, or the ability to cross-subsidize.
   d. All of the previous
   e. None of the previous

17. Predatory pricing
   a. To be worth, the incumbent must have a reasonable expectation that he can gain market power that he might explore in the future
   b. Sometimes an enterprise may assume predatory behavior in one market to deter competitors in another market
   c. Overcapacity investment can also be used as a credible commitment that prices will fall if entry occurs
   d. None of the previous
   e. All of the previous

18. The higher the number of participants in a concertation agreement
   a. The more complex are coordination problems
   b. The greater is the likelihood of discriminatory punishment of an offender
   c. The less the likelihood of each one violating the agreement
   d. None of the above
   e. All of the above

19. Collusion is easier to sustain
   a. The more frequently decisions are made, because the easier it becomes to detect “bad behavior”.
   b. When demand is stable, as this stability makes it easier for agreement participants to detect “holes”.
   c. When there is symmetry between company and contacts in various markets because it makes it easier to punish an infringement.
   d. None of the above
   e. All of the above

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