Exam 3 Review

Topic 13: Market Power II

Characteristics of Oligopolies

1.) Few Firms

2.) Identical Products

3.) Free entry and exit

Game Theory- a branch of mathematics and economics that studies strategic behavior

Strategic Behavior- when payoffs to a firm or person depend not only on what they choose to do but what their opponent chooses to do

Choose the Nash equilibrium and the cooperative outcome in the game.

The units are in number of weeks grounded.

A \ B	Confess	Don't Confess
Confess	A= 3 weeks B= 3 weeks	A= 0 weeks B= 7 weeks
Don't Confess	A= 7 weeks B= 0 weeks	A= 1 week B= 1 week

Consider the oligopoly market with two firms. Choose the Nash equilibrium and cooperative outcome.

B \	Collude	Compete
Collude	A= 100 B= 100	A= 0 B= 200
Compete	A= 200 B= 0	A= 75 B= 75

A

Topic 14: Anti- Trust

What is the goal of Anti-trust laws?

Two laws against Anti-Trust

1.) Sherman Act

2.) Clayton Act

Formula

HHI= S1^2 + S2^2 + S3^2+.....SN^2

- What does the HHI measure?

Firm	Number of Market Shares
A	14
B	20
C	36
D	12
E	18

Calculate the HHI in the given market

HHI= 2360

Suppose the FTC won't allow a merger that increases the HHI by more than 500.

New HHI= 3080

Will the FTC allow firm B and E to merge? NO

Formula

Price- Cost Margin= P-MC/ P = 1/ |Ed|

- What is the Price-Cost Margin? Markup over Marginal Cost

Practice:

What is the price-cost margin in firm Blue if the elasticity of demand is -3?

.33

What is the price-cost margin in firm Red if the elasticity of demand is -0.5?

2

Two ways the government can regulate prices? (Specifically talked about in this chapter)

1.) Marginal Cost Pricing

- How? Price ceiling at marginal cost

2.) Average Cost Pricing

- How? Price ceiling at average cost

Topic 15: Information

Two types of information

1.) Full Information

- Definition- All parties have same information

2.) Asymmetric Information

- Definition- One party has all information

Asymmetric information can lead to a break down in the market known as Lemon's Problem.

Consider Full Information

	Good iPhone	Bad iPhone
Buyer	400	100
Seller	250	100

Which kinds of iPhones will be bought and sold in the market?

Good Bad

Both