Imagine an incumbent monopolist is currently earning a profit of $100 million. Suddenly, the incumbent faces an entry threat and is considering whether or not to limit price. If the incumbent allows the entrant to come into the market it will see its profit decline to $50 million. In the case of ineffectively impeded entry, the profit earned by the incumbent if it decides to limit price will be:

A. greater than $100 million.
B. greater than $50 million but less than $100 million.
C. less than $50 million.
D. either B or C.

Use the following to answer questions (2) and (3):

Suppose a monopolist faces the following market demand equation: \( Q = 100 - P \), where \( Q \) is the quantity demanded and \( P \) is the price charged to all customers. Furthermore, suppose the firm faces the following total cost (TC): \( TC = 20Q \).

Rather than charge the same price to every consumer, if this firm could practice first degree price discrimination, then the cumulative amount the firm would sell equals:

A. 20
B. 40
C. 60
D. 80

Rather than charge the same price to every consumer, if this firm could practice first degree price discrimination, then the firm’s profit would equal $1600.

A. True
B. False

According to the Areeda-Turner rule, pricing below ____ is suggestive of a firm engaging in predatory pricing.

A. total revenue
B. average total cost
C. average variable cost
D. All of the above

A price discriminating firm is currently selling its product to two groups of consumers, A and B. The marginal revenue received from consumer group A is currently $50, and marginal revenue received from consumer group B is currently $50. Accordingly, in order to increase profit, this firm should:

A. increase sales to group A and decrease sales to group B.
B. decrease sales to group A and increase sales to group B.
C. maintain sales at current levels.
D. none of the above.
Use the following to answer questions (6) through (9):

Imagine a market in which the market demand is given as: \( Q = 300 - P \). In this market, an incumbent monopolist (I) faces the following total cost: \( TC_I = 100Q_I \), where \( Q_I \) is the quantity produced by the incumbent. A potential entrant (E) to the market faces the following total cost: \( TC_E = 150Q_E \), where \( Q_E \) is the quantity produced by the entrant. Assuming the Sylos Postulate holds,

[6] In the absence of limit pricing, E would wish to enter the market and produce a quantity equal to:

A. 70  
B. 55  
C. 25  
D. None of the above

[7] In the absence of limit pricing, if E enters the market I will see its profit fall to:

A. $3,000  
B. $4,500  
C. $7,500  
D. None of the above


A. True  
B. False

[9] If the incumbent limit prices, its profit will be:

A. $4,000  
B. $5,000  
C. $7,500  
D. None of the above

[10] Suppose a firm encounters a total cost (and thus marginal cost) which is constant at zero. The firm sells to two consumer groups, A and B, with each group facing the following respective demand:

Group A: \( Q_A = 500 - P_A \)  
Group B: \( Q_B = 1000 - 2P_B \)

The maximum profit (\( \pi \)) this firm can earn falls within which range below?

A. $50,000 < \pi < $100,000  
B. $100,000 < \pi < $150,000  
C. $150,000 < \pi < $200,000  
D. \( \pi > $200,000 \)