

Loyola University New Orleans  
Department of Economics and Finance  
Economics B350-001  
Midterm Exam

Professor Walter Block  
Fall 2003  
Industrial Organization & Public Policy

- A. Use pen, not pencil; use blue or black ink.
- B. Apportion your time to the value of the question. Don't pour out your heart and soul on the short essays, and leave no time for the long ones
- C. Write NEATLY. Yes, I mean you!
- D. Good luck!
- E. **Very Important:** Do *not* put your real name on the paper. Instead, give me a fictitious name. If I see your real name on the paper, I will take off 10 points. There will be a prize of one point for the best (e.g., funniest, most clever) pseudonym; the winner will be determined by democratic election, the same way in which we settle all intellectual issues.
- F. **Even more important**, try to fool yourself into having fun taking this exam. Surprisingly, you'll find that you will do better, and enjoy it more.
- G. When a question calls upon you to give two sides of an issue, try to do a good job on BOTH sides. I will award half credit for each!!!
- H. This exam is worth 100 points toward your grade.

I. Long Essay. Do only 4. They are worth 12.5 points each for a total of 50. You must include the first question. When there is the possibility of illustrating your answer with a diagram, or a chart, it would be a great idea to do so.

1. In the attached diagram, which you *must* choose, please find the following:

$P_c$ ,  $Q_c$ , the price and quantity that the perfectly competitive industry will select

$P$ , the point at which the perfectly competitive industry will locate

$P_m$  and  $Q_m$ , the price and quantity that the monopolistic industry will select

$M$ , the point at which the perfectly competitive industry will locate

Total revenue (TR), total costs (TC) and profit for both the perfectly competitive and monopolistic industry; do this both the average and marginal way. That is, I'm asking for 6 things here:

$TR_m$ ,  $TC_m$ , profits<sub>m</sub>,  $TR_c$ ,  $TC_c$  and profits<sub>c</sub>, both done in two different ways (marginal and average)

Find the dead weight loss for both the monopolist and the competitive industry.

Where is the supply curve for both the monopolist and the competitive industry?

(Hint, these last two are trick questions)

This question is worth 20 points.

2. What is Block's critique of the concept of "natural monopoly?" Tell the monopoly joke; both parts of it. Explain. Not why it's funny, but its relevance to the course.
3. What is the relationship between international trade and the study of industrial organization and anti trust? For which school(s) of thought is this relevant, and which one(s) not? What is the difference between comparative and absolute advantage?
4. "In equilibrium, profit tends to equalize in all industries." Explain. What is the exception to this rule? Why?
5. How many different brands of goods should there be? Give two perspectives: that of John Kenneth Galbraith and that of a free market advocate. Illustrate the latter with a diagram.
6. Explain and defend the "Invisible Hand."

II. IDENTIFICATIONS. Short Essay. Tell me what these are, and their significance. Give examples. Impress my socks off. Do only 10. They are worth 4 points each for a total of 40.

1. placebo; double blind
2. market failure
3. ceteris paribus
4. normative vs. positive economics
5. capture theory
6. the relationship between marginal and average
7. invisible hand
8. blackmail vs. extortion
9. title search vs. access search
10. distinguish between monopoly, duopoly, oligopoly, perfect and imperfect competition; also, between the following kinds of mergers: vertical, horizontal and conglomerate
11. CR6 vs. restriction on entry
12. Block's criticisms of the AMA's defense for insisting that the licensing exam be in English, on the ground that this is necessary for protecting the patient
13. implicit contracts
14. zero sum vs. positive sum game
15. licensing vs. certification
16. give 5 real world examples of certification agencies
17. what kinds of goods have strictly local markets?
18. "We're all monopolists." Explain in what sense this could be true.
19. What general rule of economics does *not* pertain to the game "Monopoly?"

20. The Edsel. What does this symbolize?
21. price war, hostile merger
22. cross elasticity of demand; what is its relevance to IO?

III. Matching; worth 10 points

Match the items in list I with that of list II.

Hint: Here's how the matching would work in a simpler case:

List I

1. Love
2. Horse
3. Tweedle Dee

List II

- a. Carriage
- b. Marriage
- c. Tweedle Dum

The correct answers are

- 1b
- 2a
- 3c

Now, here are the real lists:

I.

1. capture theory
2. death penalty
3. all groups of people are not equally represented amongst all industries
4. hours legislation
5. Canadian Minister of Consumer and Corporate Affairs
6. Greed is good
7. "Business is America's most persecuted minority."
8. A marxist
9. Public Choice
10. Invisible hand
11. Robert Nozick

II.

- a. Gordon Gekko
- b. Adam Smith
- c. Isaac Ehrlich
- d. George Stigler
- e. Lochner

- f. Ayn Rand
- g. James Buchanan
- h. Thomas Sowell
- i. Gabriel Kolko
- j. Andre Ouellet
- k. capitalist acts between consenting adults