


| Price | Quantity | Price | Quantity |
|-------|----------|-------|----------|
| \$100 | 1 | \$70 | 5 |
| \$ 95 | 2 | \$55 | 6 |
| \$ 88 | 3 | \$40 | 7 |
| \$ 80 | 4 | \$22 | 8 |

11. The cement industry is an example of an undifferentiated oligopoly. The automobile industry is a differentiated oligopoly. Which of these two is more likely to advertise? Why?
12. The South American cocaine industry consists of several "families" that obtain the raw material, refine it, and distribute it in the United States. There are only about three large families, but there are several small families. What market structure does the industry most closely resemble? What predictions based on the market-structure models can be made about the cocaine business? How do you explain the lack of wars among the families?
13. Use the payoff matrix below for the following exercises. The payoff matrix indicates the profit outcome that corresponds to each firm's pricing strategy.

| | | Firm A's Price | |
|----------------|------|--|--|
| | | \$20 | \$15 |
| Firm B's Price | \$20 | Firm A earns \$40 profit Firm B earns \$37 profit | Firm A earns \$35 profit Firm B earns \$39 profit |
| | \$15 | Firm A earns \$49 profit Firm B earns \$30 profit | Firm A earns \$38 profit Firm B earns \$35 profit |

- a. Firms A and B are members of an oligopoly. Explain the interdependence that exists in oligopolies using the payoff matrix facing the two firms.
- b. Assuming that the firms cooperate, what is the solution to the problem facing the firms?
- c. Given your answer to part b, explain why cooperation would be mutually beneficial and then explain why one of the firms might cheat.
14. What is the purpose of a brand name? What would occur if any maker of aspirin could put a Bayer Aspirin label on its product?



Take the ACE Practice Test for this chapter to review the important concepts and get immediate feedback with answers.

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