Chapter 09 Testbank

1. Game theory provides tools that are used to model

   A. how perfectly competitive firms behave.
   B. cost functions faced by firms.
   C. consumer demand.
   D. interdependence.

2. The three elements of a game are

   A. the firm, the consumers and the profit
   B. the players, the strategies and the payoffs
   C. the model, the graph and the costs
   D. the costs, the revenue and the profit

3. Game theory is not useful in understanding perfect competition because

   A. by assumption, the firms are so small as to be unable to influence price and thus are not interdependent.
   B. perfectly competitive firms are honest.
   C. the players can't be identified.
   D. the payoffs to their choices are unknown.

4. Which of the following situations does not involve game theory?

A. Buying a pair of pants at the Gap.

B. The government deciding to spend more on defense.

C. Intel debating whether to lower the price on its microprocessors.

D. A student considering cheating on this exam.

5. A payoff matrix is used to show

A. the payoff to being a monopolist relative to a competitive firm.

B. the demand curve faced by two competing firms.

C. each player's payoffs in each possible combination of strategies.

D. the sequence of strategies played in a game over time.

		Khalid	
		A	B
Rami	C	D	E
	F	G	H

6. Refer to the figure above. In the payoff matrix shown, which cells would show Rami's possible strategies?

A. C and F

B. A and B

C. D, E, G and H

D. D and G

7. Refer to the figure above. In the payoff matrix shown, Khalid may choose

   A. from among D, E, G and H.
   B. D only if Rami has chosen C first.
   C. G only if Rami has also chosen G.
   D. between A and B.

8. Refer to the figure above. In the payoff matrix show, the letter D denotes

   A. Rami's payoff from choosing D.
   B. Khalid' payoff from choosing D.
   C. each player's payoff if they both choose D.
   D. each player's payoff if Khalid chooses A at the same time Rami chooses C.

9. Refer to the figure above. If Khalid chooses B, the payoffs will be

   A. E
   B. H
   C. either E or H
   D. B

10. Refer to the figure above. A dominant strategy occurs when

    A. one player has a strategy that yields the highest payoff regardless of the other player's choice.
    B. both players have a strategy that yields the highest payoff independent of the other's choice.
    C. both players make the same choice.
    D. the payoff is the maximum possible combination of payoffs in the game.

		Player B	
		LEFT	RIGHT
Player A	UP	5 for A 30 for B	10 for A 12 for B
	DOWN	-2 for A 10 for B	8 for A 15 for B

11. Refer to the figure above. In this game, how many dominant strategies does Player A have?

A. 0

B. 1

C. 2

D. 4

12. Refer to the figure above. In this game, how many dominant strategies does Player B have?

A. 0

B. 1

C. 2

D. 4

13. Refer to the figure above. In this game, the dominated strategy for Player A

A. is to play up.

B. is to cooperate with Player B.

C. is to play down.

D. will depend on Player B's move.

14. Refer to the figure above. How many equilibria are there?

A. 0

B. 1

C. 2

D. 3

15. Refer to the figure above. Player B can infer that Player A will

A. always choose the Down strategy.

B. always choose the Up strategy.

C. choose Down when B chooses Left and choose Up when B chooses Right.

D. choose Up when B chooses Left and Down when B chooses Right.

16. Refer to the figure above. Player A can infer that Player B will

A. always choose the Left strategy.

B. always choose the Right strategy.

C. choose Left when A chooses Up and choose Right when A chooses Down.

D. Player A cannot infer anything about what Player B will do given this matrix.

Jalal is the owner of the 24-7 Mini Mart, Salah is the owner of the 24-365 Mini Mart and together they are the only gas stations in town. At the current price of $3 per gallon both receive total revenues of $1,000. Jalal is considering cutting his price to $2.90, which would increase his total revenue to $1,350 if Salah continues to charge $3. If Salah's price remains $3 after Jalal cuts his price, Salah will collect $500 in revenues. If Salah cuts his price to $2.90, his total revenues would also rise to $1,350 if Jalal continues to charge $3. Jalal will collect $500 in revenues if he keeps his price at $3 while Salah lowers his to $2.90. Jalal and Salah will receive $900 each in total revenue if they both lower their price to $2.90. You may find it easier to answer the following questions if you fill in the payoff matrix below.

		Jalal	
		Cut Price	Keep Old Pric
Salah	Cut Price		
	Keep Old Price		

17. To Jalal, leaving his price at $3 is a

A. revenue maximizing strategy.

B. dominant strategy.

C. dominated strategy.

D. profit maximization strategy.

18. To Salah, cutting his price to $2.90 is a

A. revenue maximizing strategy.

B. dominant strategy.

C. dominated strategy.

D. profit maximizing strategy.

19. The clear outcome of this game is that

A. Jalal will cut his price and Salah won't.

B. both will cut price to $2.90.

C. Salah will cut his price and Jalal won't.

D. neither Jalal nor Salah will cut their price.

20. To both Jalal and Salah, _____ is a _____.

A. cutting price to $2.90; disequilibrium.

B. leaving price at $3; Nash equilibrium.

C. leaving price at $3; dominant strategy.

D. cutting price to $2.90; Nash equilibrium.

21. In the Nash Equilibrium of a prisoner's dilemma game,

A. there is no cash left on the table.

B. there is unrealized opportunity for both to gain.

C. total economic surplus is maximized.

D. both players have equal payoffs.

		Khawlah	
		Strategy A	Strategy B
Salma	Strategy A	Salma: +5, Khawlah: +5	Salma: 0, Khawla
	Strategy B	Salma: +10, Khawlah: 0	Salma: -5, Khaw +10

		Cory	
		Strategy A	Strategy B
Jess	Strategy A	Jess: +5, Cory: +5	Jess: 0; Cory: -5
	Strategy B	Jess: +10; Cory: 0	Jess: -5; Cory: +10

22. Refer to the figure above. In the matrix above,

A. Salma has a dominant strategy, but Khawlah does not.

B. Khawlah has a dominant strategy, but Salma does not.

C. both Khawlah and Salma have the same dominant strategy.

D. neither Khawlah nor Salma has a dominant strategy.

23. Refer to the figure above. In the matrix above, Khawlah's best response to a decision by Salma to play Strategy A is

A. non existent.

B. to also choose Strategy A.

C. to choose Strategy B.

D. to choose the cell in which Khawlah's payoff is +10.

24. Refer to the figure above. This game has _____ Nash Equilibria.

A. 0
B. 1
C. 2
D. 4

25. The prisoner's dilemma refers to games in which

A. neither player has a dominant strategy.
B. one player has a dominant strategy and the other does not.
C. both players have a dominant strategy which results in a lower payoff than they would earn if they play their dominated strategies.
D. both players have a dominant strategy which results in the largest possible payoff.

26. The dilemma in the Prisoner's Dilemma comes from the fact that

A. the outcome is purely random.
B. no strategy is dominant.
C. if both players play the dominant strategy they each earn a smaller payoff than had they played the dominated strategy.
D. it was originally devised to explain the behavior of prisoners.

27. The equilibrium in a prisoner's dilemma is an example of

A. the low-hanging fruit principle

B. the comparative advantage principle

C. the equilibrium principle

D. the smart for one, dumb for all principle

		Column Cruises	
		Offer Reduced Summer Rates	Keep Rates High in Summer
Row Resorts	Offer Reduced Summer Rates	Row: 50, Column: 50	Row: 500, Column: 10
	Keep Rates High in Summer	Row: 10, Column: 500	Row: 300, Column: 300

28. Refer to the figure above. If Column Cruises offers reduced rates in the summer, and Row Resorts keeps its rates high in the summer,

A. Both Row Resorts and Column Cruises will earn 300 in profits.

B. Both Row Resorts and Column Cruises will earn 50 in profits.

C. Row Resorts will earn profits of 500 and Column Cruises will earn profits of 10.

D. Row Resorts will earn profits of 10 and Column Cruises will earn profits of 500.

29. Refer to the figure above. If Row Resorts decides to lower its rates for the summer, Column Cruises would make the most profit if it

A. kept its rates high for the summer.

B. also lowered its rates for the summer.

C. entered into a cartel with Row Resorts and agreed to jointly reduce rates.

D. It doesn't matter which strategy is chosen because Column Cruises will have the same payoff in either case.

30. Refer to the figure above. If Row Resorts decides to keep its rates high for the summer, Column Cruises would get the highest payoff by

A. also keeping its rates high in the summer.
B. offering reduced summer rates.
C. agreeing with Row Resorts to both lower their rates at exactly the same time.
D. it doesn't matter which he chooses because he will have the same payoff in either case.

31. Refer to the figure above. The dominant strategy for Row Resorts is _____ and for Column Cruises is _____.

A. to keep rates high during the summer; to keep rates high during the summer
B. to reduce rates during the summer; to reduce rates during the summer
C. to keep rates high during the summer; to reduce rates during the summer
D. to reduce rates during the summer; to keep rates high during the summer

32. Refer to the figure above. In this game, when both players use their dominant strategies

A. profits are maximized.
B. Row Resorts earns a higher profit than does Column Cruises.
C. both firms do worse than they would if they played their dominated strategies.
D. Column Cruises earns a higher profit than does Row Resorts.

33. For a game involving two players with two possible strategies, which of the following is a requirement for a prisoner's dilemma?

A. Neither player has a dominant strategy.
B. The payoff to playing the dominated strategies must be more than the payoff to their dominant strategies.
C. The payoff to playing the dominant strategies must be more than the payoff to their dominated strategies.
D. There is no Nash equilibrium.

The table below shows the payoff matrix for players A and B to strategies X and Z.

		Player B	
		X	Z
Player A	X	\$100 for A \$75 for B	\$200 for A \$50 for B
	Z	\$50 for A \$400 for B	\$150 for A \$300 for B

34. For Player A strategy X is _____ and for Player B strategy X is _____.

A. dominant; dominated
B. dominated; dominant
C. dominant; dominant
D. dominated; dominated

35. The Nash equilibrium for this game is

A. player A choosing strategy Z and player B choosing strategy X.
B. player A choosing strategy X and player B choosing strategy Z.
C. both players choosing strategy Z.
D. both players choosing strategy X.

36. This game would be classified as a prisoner's dilemma because

A. the players play their dominant strategies.

B. playing their dominated strategies would increase both players' payoffs.

C. playing dominant strategies gives both player maximum payoff.

D. both players choose the same strategy.

The table below shows the payoff matrix in the form of short term profits for two firms, A and B, for two different strategies, investing in new capital or not.

		Firm B	
		Invest	Not Invest
Firm A	Invest	\$20 for A \$20 for B	\$70 for A \$5 for B
	Not Invest	\$5 for A \$70 for B	\$50 for A \$50 for B

37. For Firm A _____ is its dominant strategy, and for Firm B _____ is its dominant strategy.

A. investing; not investing.

B. not investing; investing

C. investing; investing

D. not investing; not investing

38. The game is an example of a(n)

A. cartel.

B. credible promise.

C. prisoner's dilemma.

D. multiple equilibria game.

39. An industrial spy comes to firm B and claims to know what firm A has decided. How much would this information be worth to firm B?

A. 0.

B. $50 million.

C. $30 million.

D. $70 million.

The numbers in each cell are each firm's profits.

		Column Cafe	
		Publish Coupons in Student Paper	*No Coupons*
Row Restaurant	*Publish Coupons in Student Paper*	Row: 25, Column: 25	Row: 200, Column: 10
	No Coupons	Row: 10, Column: 200	Row: 120, Column: 120

40. If Column Cafe offers coupons, and Row Restaurants does not publish coupons,

A. Row Restaurant will earn $10 in profits, and Column Cafe will earn 200 in profits.

B. Both Row Restaurant and Column Cafe will earn 25 in profits.

C. Row Restaurant will earn profits of 200 and Column Cafe will earn profits of 10.

D. Both Row Restaurant and Column Cafe will earn profits of 120.

41. If Row Restaurant decides to publish coupons, Column Cafe would make the most profit if it

A. did not offer coupons.

B. also offered coupons.

C. it doesn't matter which strategy is chosen because Column Cafe will have the same payoff in either case.

D. offered coupons half of the time and did not offer coupons the rest of the time.

42. The payoffs of this game are such that

A. if Row Restaurant expects that Column Cafe will choose its dominant strategy, Row should choose to not follow its own dominant strategy.
B. profits at both firms would be highest if both firms follow their dominant strategies.
C. both firms would benefit from a law that made publishing coupons illegal.
D. an agreement to not publish coupons would be stable because with these profits neither firm has an incentive to defect.

43. An agreement among firms to restrict production with the goal of earning economic profits is a

A. pure monopoly.
B. oligopoly.
C. cartel.
D. duopoly.

44. The reason most cartels end or cease to be effective is

A. enforcement of antitrust legislation.
B. the incentive to cheat on the cartel agreement.
C. the dominant member firm buys out the other firms.
D. consumers discover the agreement and buy from other firms.

45. Cartels would be more stable if

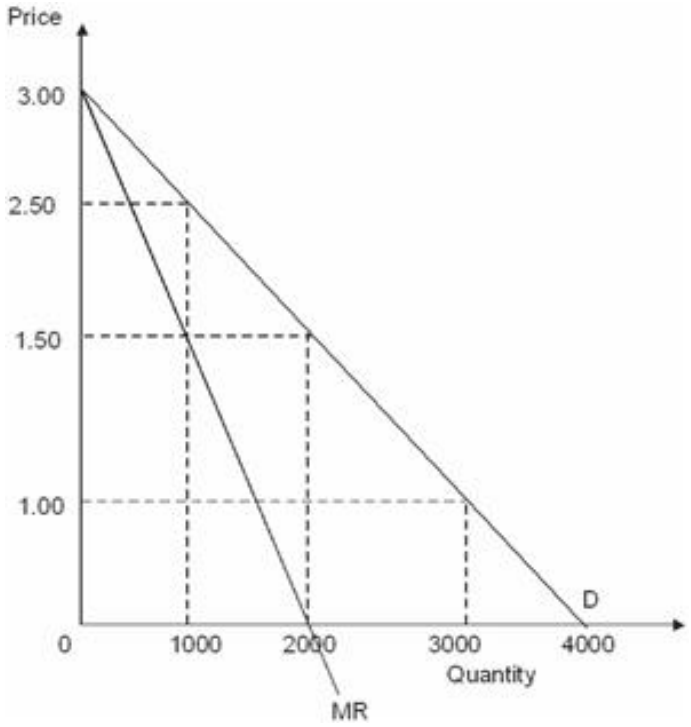
A. firms that cheat on the agreement could be legally punished.

B. firms that cheat on the agreement were better informed about the value of agreement.

C. demand for the output was more variable.

D. the cartel profit were higher than the profit each individual firm could earn without the cartel.

Quick Buck and Pushy Sales produce and sell identical products and face zero marginal and average cost. Below is the market demand curve for the product.



46. The profit-maximizing quantity for a monopolist with this demand curve is _____ units, which the monopolist would sell for _____.

A. 3000; $1.00

B. 1000; $1.50

C. 2000; $1.50

D. 1000; $2.50

47. If Quick Buck and Pushy Sales decide to collude and work as a pure monopolist so that each firm will produce half the quantity demanded by the market, what will be the economic profit for Quick Buck?

A. $1000
B. $1500
C. $2000
D. $3000

48. Suppose Quick Buck cheats on Pushy Sales and reduces its price to $1.00 each while Pushy Sales continues to comply with the collusive agreement. Quick Buck would then sell _____ units and Pushy Sales would sell _____ units.

A. 0; 3000
B. 1500; 1500
C. 2000; 1000
D. 3000; 0

49. Suppose Quick Buck cheats on Pushy Sales and reduces its price to $1.00 each while Pushy Sales continues to comply with the collusive agreement. What will be the economic profit for Quick Buck?

A. $6000
B. $1500
C. $2000
D. $3000

50. Suppose Quick Buck cheats on Pushy Sales and reduces its price to $1.00 and Pushy Sales matches the price cut. What will be the economic profit for Quick Buck?

A. $1000

B. $1500

C. $2000

D. $3000

Suppose Firm A and Firm B produce and sell identical product with zero marginal and average cost. Following is the market demand curve for the product.

51. The profit-maximizing quantity and price for a monopolist with this demand curve are _____.

A. 50 units and $2

B. 100 units and $2

C. 50 units and $3

D. 100 units and $1

52. If Firm A and Firm B decide to collude and work as a pure monopolist such that each firm will produce half the quantity demanded by the market, what will be the economic profit for Firm B?

A. $0
B. $50
C. $100
D. $150

53. Suppose Firm A and Firm B have colluded to work as a pure monopolist, but Firm B cheats on Firm A and reduces its price to $1.00/ each. Firm B would then sell ____ units and Firm A would sell _____ units.

A. 150; 50
B. 100; 50
C. 150; 0
D. 100; 0

54. Suppose Firm A and Firm B have colluded to work as a pure monopolist, but Firm B cheats on Firm A and reduces its price to $1.00/ each. How much profit will Firm B earn?

A. $75
B. $100
C. $150
D. $200

55. Suppose Firm A and Firm B have colluded to work as a pure monopolist, but Firm B cheats on Firm A and reduces its price to $1.00/ each. If Firm A matches the price cut, what will Firm A's economic profit be?

A. $75
B. $100
C. $150
D. $200

56. OPEC is an example of a(n)

A. monopsony.
B. cartel.
C. monopoly.
D. duopoly.

57. Suppose that market demand for bottled water is low enough that one firm could supply all of the demand. Two firms enter the market and agree to charge a price above the marginal cost of production. We can expect that

A. they will make a considerably large profit.
B. they will work better than a cartel.
C. this agreement will collapse.
D. if one firm does not honor the agreement the other firm will sue for breach of contract.

58. Cigarette manufacturers once relied heavily on TV advertising. According to the textbook, when the U.S. government banned TV ads, the cigarette manufacturers

A. supported the ban due to their concern over health effects of smoking.

B. felt their First Amendment rights were being violated.

C. were made worse off because the ban significantly reduced cigarette sales.

D. benefited because their advertising prisoner's dilemma was solved.

Suppose that the market for bread contains two firms: Bread World (BW) and Breads'R'Us (BRU). The owners of the two firms decide to fix the price of bread. The table shows the total profits the firms will earn if they abide by the price setting agreement or if they cheat on the agreement.

		Bread World	
		Cheat	Abide
Breads'R'US	Cheat	BRU: $40, BW: $40	BRU: $80, BW:
	Abide	BRU: $0, BW: $80	BRU: $45, BW:

59. For Bread World, _____ is its _____.

A. abiding by the agreement; dominant strategy

B. cheating on the agreement; dominated strategy

C. cheating on the agreement; dominant strategy

D. abiding by the agreement; dominant strategy when Breads'R'Us also abides.

60. For Breads 'R' Us, _____ is its _____.

A. abiding by the agreement; dominant strategy

B. cheating on the agreement; dominated strategy

C. cheating on the agreement; dominant strategy

D. abiding by the agreement; dominant strategy when Bread World also abides.

61. This game has _____ with _____.

A. a Nash equilibrium; both firms abiding by the agreement
B. no equilibrium; no prediction about which strategy will be chosen
C. a Nash equilibrium; both firms cheating
D. a Nash equilibrium; Bread World cheating and Breads 'R' Us abiding

62. This game is _____ prisoner's dilemma because _____.

A. not a; cheating has the highest payoff for both firms.
B. a; if both firms played their dominated strategy profits would be higher than if they play their dominant strategies.
C. a; if both firms played their dominant strategy profits would be higher than if they play their dominated strategies.
D. not a; neither firm has a dominant strategy.

63. Suppose a new element was introduced into the agreement: if one firm cheats today, the other firm will cheat tomorrow but if one firm abides today, the other will abide tomorrow. This strategy pattern is known as

A. the prisoner's dilemma
B. cartel-like behavior
C. tit-for-tat.
D. mutual cooperation

64. Suppose the firms agree to the following: if one firm cheats today, the other firm will cheat tomorrow but if one firm abides today, the other will abide tomorrow. The likely effect of this agreement would be

A. to increase the probability that both firms would cheat.
B. to increase the probability that Bread World would cheat.
C. to increase the probability that both firms would abide.
D. to increase the probability that Breads 'R' Us would cheat.

65. Which of the following core principles applies to the prisoner's dilemma?

A. No cash on the table.
B. Smart for one, dumb for all.
C. Low hanging fruit.
D. Scarcity.

66. According to the text, at a party everyone shouts in order to be heard. If instead everyone spoke at a normal volume people would still be heard. The likely reason that people continue to shout is that the

A. individual incentive to be heard is smaller than group incentive for everyone to be heard.
B. individual incentive to be heard is greater than group incentive for everyone to be heard.
C. individuals will never do better by speaking more loudly.
D. prisoner's dilemma does not work in a party.

67. A strategy that limits defection in a repeated prisoner's dilemma game is

A. a Nash equilibrium.
B. tit-for-tat.
C. a cartel.
D. an ultimatum bargaining game.

68. The tit-for-tat strategy only works for prisoner's dilemma games that

A. have only one Nash equilibrium.
B. are played only one time.
C. have no Nash equilibrium.
D. are repeated.

69. In tit-for-tat, if your partner _____ on the first interaction you would then _____ in your next interaction with her.

A. defected; cooperate
B. defected; defect
C. cooperates; defect
D. defected; refuse to play

70. A decision tree is used when modeling

A. any type of game.
B. simultaneous decisions.
C. a prisoner's dilemma
D. games in which timing matters.

71. A ____ describes all of the possible moves in a game in sequence and the payoffs to each possible combination of moves.

A. decision tree.
B. payoff matrix.
C. game graph.
D. multi-period game.

72. A credible threat is an action that is

A. possible to carry out.
B. legally enforceable.
C. in the threatener's self interest to carry out.
D. not in the threatener's self interest to carry out.

73. A credible promise is an action that is

A. in the promiser's self interest to keep.
B. legally enforceable.
C. made by an honest person.
D. possible to keep.

74. The essential characteristic of a credible threat is

A. that the threatener has a reputation for carrying out threats.
B. that the threatener ignores the costs of carrying out the threat.
C. that the threatener and the threatenee know each other well.
D. that it is in the threatener's self interest to act on the threat.

75. The essential characteristic of a credible promise is

A. it must be spoken with great sincerity.

B. it must be in the self interest of the promiser to keep the promise.

C. that the promise be in writing.

D. that it is legally enforceable.

Suppose Yasmin and Nadia are trying to decide what to do on a Friday. Yasmin would prefer to see a comedy while Nadia would prefer to see a documentary. One documentary and one comedy are showing at the local cinema. The utilities they receive from seeing the films either together or separately are shown in the payoff matrix. Both Yasmin and Nadia know the information contained in the payoff matrix. They purchase their tickets simultaneously, ignorant of the other's choice.

		Yasmin	
		Comedy	Documentary
Nadia	Comedy	Nadia: 3, Yasmin: 5	Nadia: 1, Yasmi
	Documentary	Nadia: 2, Yasmin: 2	Nadia: 5, Yasmi

76. Yasmin has

A. no dominant strategy.

B. a dominant strategy of seeing a comedy.

C. a dominant strategy of seeing a documentary.

D. two dominant strategies, depending on Nadia's choice.

77. Nadia has

A. no dominant strategy.

B. a dominant strategy of seeing a comedy.

C. a dominant strategy of seeing a documentary.

D. two dominant strategies, depending on Yasmin's choice.

78. This game

A. is a prisoner's dilemma.
B. is not a prisoner's dilemma.
C. is an ultimatum bargaining game.
D. has no Nash equilibrium.

79. This game has _____ Nash equilibrium.

A. 0.
B. 1.
C. 2.
D. 4.

80. Suppose a timing element is added to the game, and that Yasmin buys a ticket first. While Nadia did not see which ticket Yasmin bought, Nadia does know the values in the payoff matrix and that Yasmin has purchased first. Assuming that Yasmin and Nadia are both self-interested, Nadia can infer

A. that Yasmin bought a ticket for the documentary.
B. that Yasmin did not exploit the first-mover advantage.
C. that Yasmin bought a ticket for the comedy.
D. that Yasmin's threat to buy a ticket for the comedy is not credible.

81. Assuming Nadia is self-interested and believes Yasmin is as well, if Nadia knows that Yasmin bought a ticket first, Nadia will

A. be indifferent between the two movies.
B. buy a ticket to the comedy.
C. flip a coin.
D. buy a ticket to the documentary.

82. Suppose Yasmin picks first and chooses the comedy and then Nadia choose the comedy. The reason Nadia selected the comedy is that

A. Nadia receives a higher payoff choosing comedy when Yasmin has chosen comedy.
B. Nadia must establish a reputation for keeping promises even If it is not in Nadia's immediate self-interest to do so.
C. selecting the comedy is Nadia's dominant strategy regardless of Yasmin's choice.
D. this is a prisoner's dilemma, and so the players do best when choosing the same strategy.

83. In sequential games, the player who moves first

A. always has a first-mover advantage.
B. has a first-mover advantage only when he or she is able to make a credible threat or promise to choose a dominated strategy.
C. has a first-mover advantage only when the second mover fails to choose the dominant strategy.
D. sometimes has an advantage and sometimes has a disadvantage.

84. A monopolistically competitive firm

A. sells products that are perfect substitutes for its competitors' products, so must compete on the basis of location.
B. sells products that are close substitutes for its competitors' products, so will locate as far away from its competitors as possible.
C. sometimes distinguishes its output from that of its competitors by locating in a more convenient place.
D. will be more successful the more similar its output is to its competitors' output.

85. If Harold Hotelling's insight about location is extended to other firm decisions, you would expect the output of monopolistically competitive firms to become

A. more differentiated over time.
B. more similar over time, while location, hours and other features become more differentiated over time.
C. more similar over time, with location, hours and other features also becoming more similar over time.
D. lower in quality over time.

86. Suppose that you have noticed that almost all of the car dealers in your city are located along a 3-block stretch of the same street. A likely reason for this clustering of car dealers is that

A. the dealers are better able to form a cartel.
B. each dealer is attempting to locate closest to the customers.
C. there is a social norm in that city that dealers follow in choosing location.
D. each dealer sells a different brand of car, so they are not competitors and do not have to be concerned about the other dealers' locations.

One thousand adults live in your town, and all of them leave work at 4:30 p.m. everyday and arrive home at exactly 5:00. They all go to bed at 9 p.m. Three telemarketers selling cruises to Sharm El Sheikh, Alpha, Beta, and Gamma, have targeted the town's population. Because the cruises are identical, the first telemarketer to call a willing consumer will get the sale.

87. The solution to the firms' problem will involve

A. differentiation by timing
B. differentiation by geographic location
C. exploiting perfectly inelastic demand
D. differentiation by quality

88. Beta's manager has decided that the best time to call is 7:00 because it is exactly halfway between 5:00 p.m. and bedtime.

A. Beta is certain to make the most sales because all customers are 2 hours or less away from a phone call.
B. Alpha and Gamma will have an incentive to also make calls at 7:00, causing clustering at the halfway point in the evening.
C. Alpha and Gamma will divide up the rest of the market, with one choosing to call at 6:00 and the other at 8:00.
D. Beta's manager did not choose wisely.

89. Calls made by telemarketers at each firm will tend to

A. be evenly distributed throughout the evening.
B. cluster near 5:00 p.m.
C. cluster near 6:00 p.m.
D. cluster near 7:00 p.m.

90. The last time you went on a road trip, you noticed that there were several fast food outlets clustered near some highway exits, but none at the others. Now that you are familiar with Hotelling's model you know that the reason for this is

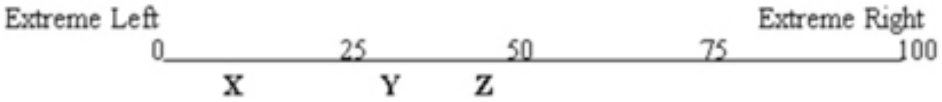
A. zoning laws.

B. firms vying for a favorable location.

C. failure by the firms to correctly distribute themselves.

D. the existence of fast food cartels.

Hotelling's model has been used to describe differentiation in the political "market." Suppose that 100 voters are evenly arrayed between the extreme left and the extreme right on the political spectrum, and that all voters vote, and they always vote for the candidate closest to them on this spectrum. The numbers on this spectrum represent the number of voters lying to the left of the number. So, at the midpoint, fifty voters lie to the left and fifty to the right. At the extreme right end, all 100 voters lie to the left.



91. If Candidate X is running for office against Candidate Z, the result will be that

A. all voters to the left of Z will vote for X, and all voters to the right of Z will vote for Z.

B. all voters who would have voted for Candidate Y will vote for Candidate X.

C. Candidate Z will certainly win.

D. Candidate X might win, but the result is uncertain.

92. Suppose Candidate X is running against Candidate Y. If Candidate Z enters the race,

A. approximately half of the voters who were going to vote for X will now vote for Z.
B. X will certainly win because Y and Z compete for the same voters.
C. all of the voters who were going to vote for Y will now vote for Z.
D. most of the voters who were going to vote for Y will now vote for Z.

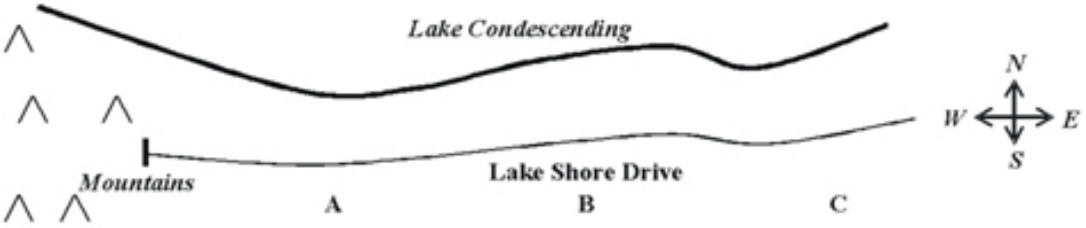
93. If Candidate X is running against Candidate Z, by moving to the right Candidate X would

A. lose some votes from the far left but gain approximately the same number of votes from Z.
B. not lose any votes from the left and gain some from Z.
C. force Z to move farther to the right in order to keep the same number of votes.
D. win the election if the move placed X anywhere to the right of the 25 mark on the spectrum.

94. If Candidate Y is running against Candidate Z,

A. Candidate Y will have an incentive to move to the left, and Candidate Z will have an incentive to move to the right.
B. Both candidates will have an incentive to move to the left.
C. Both candidates will have an incentive to move toward each other's position.
D. Neither candidate has any incentive to move.

Miniville is an isolated town located on the southern shore of Lake Condescending, a very large lake. The western edge of Miniville is adjacent to impassable mountains and there are no towns or businesses for many miles to the east. The 300 residents of Miniville are evenly distributed along 3 miles of shoreline on the lake, east of the mountains. Lake Shore Drive, the only street in town, provides access to Miniville's homes and businesses. All residents live between the lake and the street, while businesses may locate on the other side of the street. Lake Shore Drive is 3 miles long, and the points labeled A, B, and C are 1, 2, and 3 miles from the western end of Lake Shore Drive respectively. All residents of Miniville shop at the store located closest to their homes.



95. _____ residents of Miniville live west of point B and _____ live east of point A.

A. 100; 200

B. 150; 150

C. 200; 200

D. 200; 100

96. Because all residents of Miniville shop at the store located closest to their homes, the optimal location for the first store to open in Miniville is

A. at the western end of Lake Shore Drive

B. there is no single optimal location for the first store.

C. Point A.

D. Point C.

97. If one store is located at A and the other store is located at B,

A. all of the people living between A and the mountains will shop at the store at A.
B. some, but not all, of the people living east of B will shop at the store at B.
C. exactly half of the people living west of B will shop at the store at B.
D. exactly half of the people living east of B will shop at the store at B.

98. If one store is located at A and the other store is located at C,

A. 150 people will shop at each store.
B. 200 people will shop at the store at A, and 100 people will shop at the store at C.
C. 100 people will shop at the store at A, and 200 people will shop at the store at C.
D. 100 people will certainly shop at each store, but where the other 100 will shop is indeterminant.

99. If the first store to open in Miniville is located at A, to maximize the number of customers it attracts, the next store to open should locate

A. just west of A
B. at B
C. at C
D. just east of A

100. If three stores were to open sequentially, you would expect that those stores would be located

A. at points A, B, and C.
B. halfway between the mountains and A, halfway between A and B, and halfway between B and C.
C. in a cluster, near point B.
D. in a cluster, near the location chosen by the first store to locate.

101. According to the text, the observation that many New York – Los Angeles flights leave exactly on the hour is due to

A. air traffic controllers' preferences.
B. clustering by competing firms to attract customers.
C. cartel-like behavior.
D. an effort to make flight times easier to remember for passengers.

102. When players cannot achieve their goals because they are unable to make credible threats or promises, the situation is called

A. the prisoner's dilemma.
B. a Nash equilibrium.
C. a failure of dominant strategies.
D. a commitment problem.

103.A commitment problem exists when

A. players cannot make credible threats or promises.

B. players cannot make threats.

C. there is a prisoner's dilemma.

D. players cannot make promises.

104.An action that makes otherwise empty threats or promises credible is called a(n)

A. Nash equilibrium.

B. commitment device.

C. strategic device.

D. dominant strategy.

105.According to the textbook, one possible way of solving the commitment problem in the kidnapping game is for the victim to

A. give the kidnapper a blank check.

B. promise never to reveal the kidnapper's identity.

C. offer to cut off one finger to show his sincerity.

D. do something illegal and allow the kidnapper to record it.

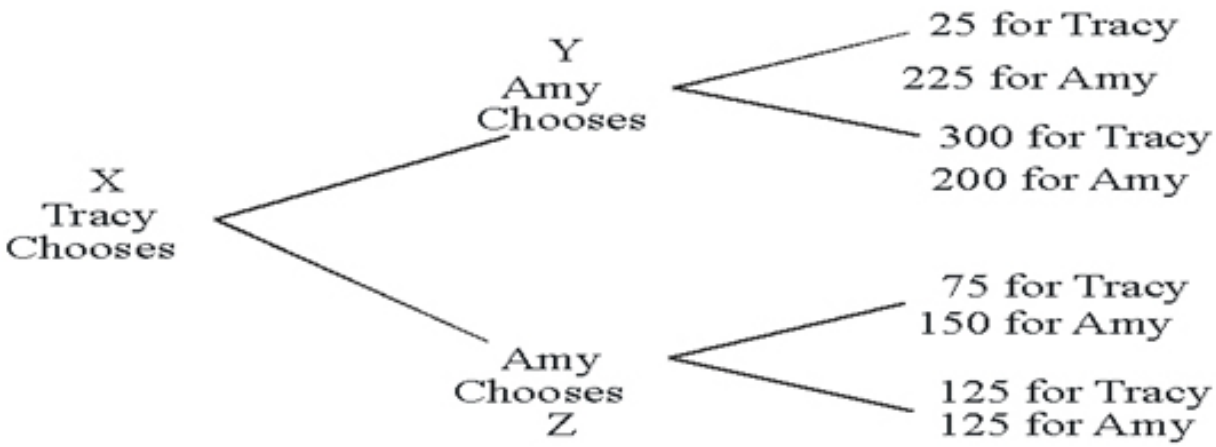
106. According to the textbook, owners of restaurants have solved the _____ their wait staff by paying low wages and encouraging tipping by customers.

A. credible threats by

B. commitment problem with

C. credible promises by

D. salary problems of



In the above decision tree, Yusra picks first and Amal picks second. Yusra knows Amal's payoffs to each choice and Amal knows Yusra's payoffs.

107. Based solely on the information in this decision tree, we can predict that

A. Yusra will always make the decision to give Amal the choice at Y, and Amal will then choose the lower branch.

B. Amal will make a credible promise to pick the lower branch if given the choice at Y and Yusra will make the decision to give Amal the choice at Y.

C. Yusra will always make the decision to give Amal the choice at Z and Amal will then choose the upper branch.

D. Yusra will always make the decision to give Amal the choice at Z and Amal will then choose the lower branch.

108. Given the information in this decision tree, the equilibrium outcome of this game will be for Amal to choose the _____ after Yusra has made the decision that gives Amal the choice at _____.

A. lower branch; Y

B. upper branch; Y

C. lower branch; Z

D. upper branch; Z

109. If the payoffs at the end of each branch are as shown, the outcome of this game will be

A. Yusra and Amal both get 125.

B. Yusra gets 75 and Amal gets 150

C. Yusra gets 300 and Amal gets 200

D. Yusra gets 25 and Amal gets 225

110. If before Yusra chose, Amal could make a credible commitment to choose either the top or bottom branch when her turn came, Yusra would make the decision to give Amal the choice at _____ and Amal would choose the _____.

A. Z; top branch

B. Z; lower branch

C. Y; lower branch

D. Y; top branch

111. If before Yusra chose, Amal could make a credible commitment to choose either the top or bottom branch when her turn came, Yusra would get a payoff of _____ and Amal would get a payoff of _____.

A. 25; 225
B. 300; 200
C. 75; 150
D. 125; 125

112. The equilibrium to the game results in _____ for Amal and Yusra relative to what they would receive if they could solve their _____.

A. lower payoffs; prisoner's dilemma.
B. higher payoffs; commitment problem
C. lower payoffs; credible threat.
D. lower payoffs; commitment problem.

113. Which of the following is not a commitment device used to overcome a commitment problem?

A. A non-refundable advance payment to reserve a room at a resort.
B. A manufacturer's 2-year agreement to fix, at no cost to you, anything that breaks on your computer.
C. An agreement that provides for a large penalty in the event a business partner reveals trade secrets to a competitor.
D. High fines for illegal parking on campus.

114.One reason that commitment problems arise is that

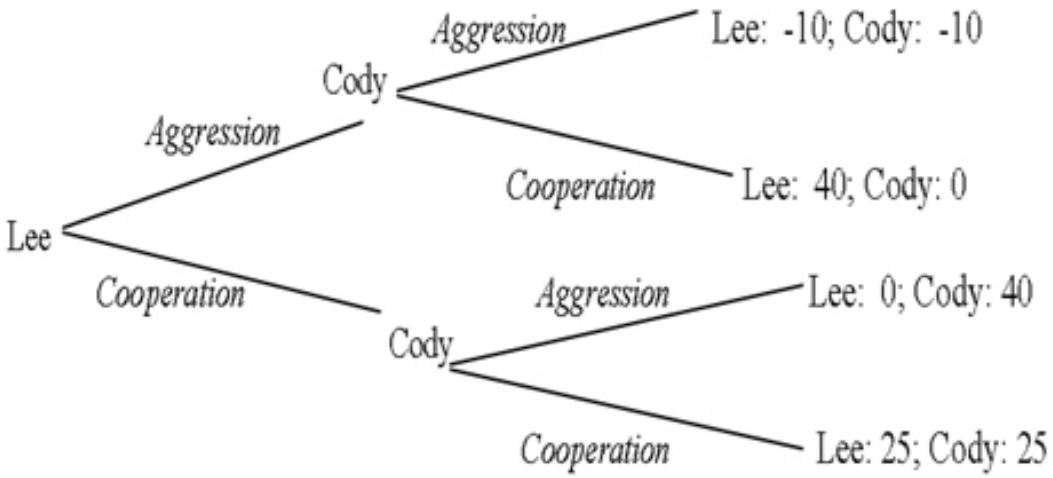
A. people do not always correctly identify their own dominant strategy.

B. players cannot trust that other players will avoid playing their dominated strategy.

C. following through on a threat or promise often violates the cost-benefit principle.

D. commitments cannot be purchased.

Lutfi and Kassim are competitors. Each is considering whether to take aggressive action against the other or to cooperate. Kassim can observe Lutfi's decision. Their decision tree can be diagrammed as follows:



115.If Lutfi is aggressive, Kassim will respond with _____ and if Lutfi cooperates, Kassim will respond with ____.

A. Aggression; Cooperation

B. Aggression; Aggression

C. Cooperation; Aggression

D. Cooperation; Cooperation

116. Suppose Kassim tells Lutfi that any aggression on Lutfi's part will be met with aggression, but that if Lutfi cooperates, Kassim will respond cooperatively. Kassim's statement is

A. a commitment device.
B. a non-credible threat and promise.
C. a description of the two equilibria for this game.
D. a credible threat and promise.

117. The equilibrium for this game is for Lutfi to choose _____ and for Kassim to be _____ in response.

A. aggression; cooperative
B. aggression; aggressive
C. cooperation; cooperative
D. cooperation; aggressive

118. Suppose Lutfi and Kassim enter into a binding non-aggression agreement. As part of that agreement they negotiate a fine that Kassim would have to pay to Lutfi if Kassim responded to Lutfi's passive choice with aggression. For that fine to be effective, it must be

A. less than 15
B. greater than 15
C. equal to 40
D. equal to 25.

Mexico and the members of OPEC produce crude oil. Realizing that it would be in their best interests to form an agreement on production goals, a meeting is arranged and an informal, verbal agreement is reached. If both Mexico and OPEC stick to the agreement OPEC will earn profits of $200 million and Mexico will earn profits of $100 million. If both Mexico and OPEC cheat then OPEC will earn $175 million and Mexico will earn $80 million. If only OPEC cheats, then OPEC earns $185 million and Mexico $60 million. If only Mexico cheats, then Mexico earns $110 million and OPEC $150 million.

		OPEC	
		Cheat	Abide
Mexico	Cheat		
	Abide		

119. To Mexico, the payoff to cheating is either

A. $60 million or $100 million.

B. $150 million or $200 million.

C. $80 million or $110 million.

D. $100 million or $110 million.

120. To OPEC, the payoff to not cheating is either

A. $150 million or $200 million.

B. $200 million or $185 million.

C. $60 million or $100 million.

D. $175 million or $185 million

121.Mexico finds that it has

A. no dominant strategy.

B. a dominant strategy of not cheating.

C. no dominated strategy.

D. a dominant strategy of cheating.

122.OPEC finds that it has

A. a dominant strategy of cheating.

B. a dominated strategy of cheating.

C. a dominant strategy of not cheating.

D. no dominant strategy.

123.The outcome of this game is

A. a Nash equilibrium with both Mexico and OPEC not cheating.

B. a Nash equilibrium with both Mexico and OPEC cheating.

C. a Nash equilibrium with Mexico cheating and OPEC not cheating.

D. a Nash equilibrium with Mexico not cheating and OPEC cheating.

124.This game would _____ because _____.

A. be a prisoner's dilemma; not cheating is better for both

B. not be a prisoner's dilemma; cheating is better for both

C. be a prisoner's dilemma; cheating is better for both

D. not be a prisoner's dilemma; OPEC does not have a dominant strategy

125. Suppose Mexico picks its strategy first and OPEC knows what they choose. OPEC told Mexico that in the event Mexico cheats on the agreement, OPEC will cheat as well but if Mexico does not cheat, neither will OPEC. This is an example of a(n) _____ and the outcome is that _____

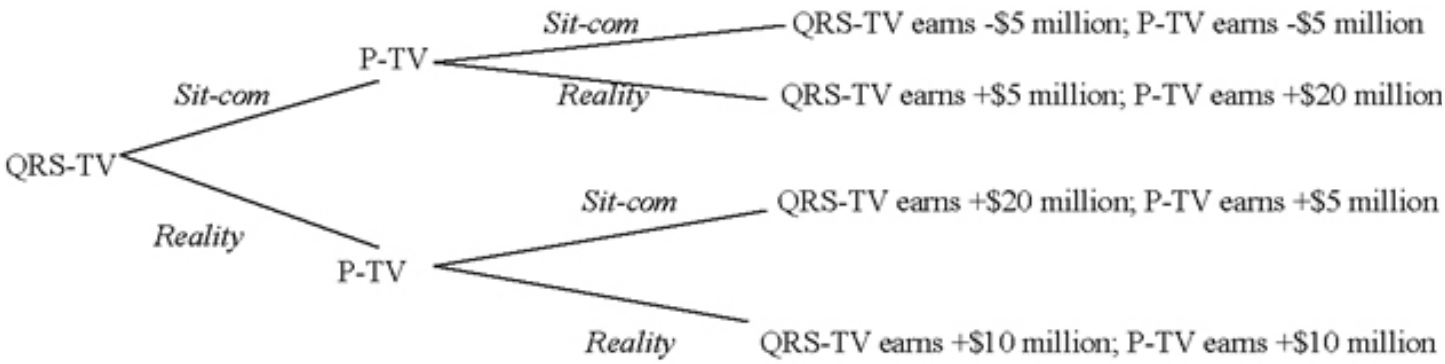
A. commitment problem; neither will cheat.

B. credible threat and promise; neither will cheat.

C. prisoners dilemma; both will cheat.

D. not credible threat or promise; both will cheat.

P-TV and QRS-TV are planning their fall line-up. Suppose that sit-coms are more popular than reality shows, and so generate more advertising revenue than do reality shows, but they are more expensive to produce since real actors need to be hired. In the following decision tree, QRS-TV announces its decision first and P-TV observes that choice before it decides whether to air a sit-com in the same time slot or a reality show. Both stations know all of the information shown in this diagram when they make their decisions.



126. Given the information in this decision tree, if QRS-TV announces that it will air a sit-com, it can expect to

A. lose $5 million

B. earn $5 million

C. earn $10 million

D. earn $29 million

127. Given the information in this decision tree, if QRS-TV announces that it will air a reality show, it can expect to

A. lose $5 million
B. earn $5 million
C. earn $10 million
D. earn $20 million

128. P-TV will air a sit-com

A. only if QRS-TV is also airing a sit-com.
B. only if QRS-TV is airing a reality show.
C. always.
D. never.

129. Given the information in this decision tree, this season programming in this time slot on QRS-TV and P-TV will be

A. only reality shows.
B. only sit-coms.
C. a sit-com on QRS-TV and a reality show on P-TV.
D. a reality show on QRS-TV and a sit-com on P-TV.

130. Suppose QRS-TV enters into an agreement with P-TV that gives QRS-TV the exclusive right to air a reality show during this time slot. QRS-TV would have to pay P-TV _____ in order to persuade P-TV to enter into this agreement.

A. more than $5 million
B. nothing
C. at least $10 million
D. more than zero, but less than $5 million

131. Suppose QRS-TV enters into an agreement with P-TV that gives QRS-TV the exclusive right to air a reality show during this time slot. QRS-TV would be willing to pay P-TV _____ in order to persuade P-TV to enter into this agreement.

A. no more than $10 million
B. nothing
C. at least $10 million
D. more than zero, but less than $5 million

132. If someone informs a sales clerk that he was given $20 in change when he was only owed $10, one can conclude,

A. the individual is irrational.
B. preferences to be honest altered his motivation and choice.
C. the individual is wealthy.
D. somebody else must have witnessed the error.

133. Relative to a world in which some people are motivated by nonmaterial incentives, if all people were motivated solely by financial incentives

A. transactions in the business world would be the same, but personal interactions would not.
B. economic efficiency would be achieved more often.
C. commitment devices would not be necessary, because there would be no commitment problems.
D. both business transactions and personal interactions would be different.

134. According to the textbook, in the game where player A divides a sum of money and then player B accepts or rejects the division, the most common distribution for A to propose is

A. 99% for A and 1% for B.
B. 80% for A and 20% for B.
C. 50% for A and 50% for B.
D. 70% for A and 30% for B.

135. Only one of the following behaviors is fully consistent with the assumption of narrowly self-interested individuals. Which one?

A. Leaving a tip at an out of town restaurant.
B. Getting the lowest price on a new car.
C. Taking only one newspaper out of the machine.
D. Returning a lost wallet full of cash to the owner.

136.A purely self-interested diner is more likely to tip

A. never.

B. only when dining in a very up-scale restaurant.

C. only when dining in a restaurant at which he often eats.

D. always, to assure good service.

137.The solution to a commitment problem

A. must be a change in the material incentives.

B. is never a change in the psychological incentives.

C. must be a change in the psychological incentives.

D. can be a change in the material incentives, the psychological incentives or both.

138.Emotions like guilt and sympathy

A. are irrelevant to economic decision-making.

B. reduce the likelihood that a transaction will maximize total economic surplus.

C. can solve commitment problems, increasing players' payoffs.

D. can solve commitment problems, but generally reduce players' payoffs.

Suppose there are two small island countries: Avarice, which is populated by people who are completely self-interested and Altruism, which is populated by people who have adopted social norms of generosity and cooperation.

139. Commitment problems will be

A. largely avoided in Avarice, but prevalent in Altruism.
B. largely avoided in Altruism, but prevalent in Avarice.
C. prevalent on both islands.
D. largely avoided on both islands.

140. If two residents of Avarice play the Prisoner's Dilemma game, they are likely to

A. never reach the Nash Equilibrium
B. reach the Nash Equilibrium more often than would residents of Altruism.
C. reach the Nash Equilibrium less often than would residents of Altruism.
D. play their dominated strategies more often than would residents of Altruism.

141. Suppose residents of each island often play prisoner's dilemma games, always matched with a person from the same island, but not a person who they know or will play with again. If the same number of games is played, you would expect that

A. Avarice players will have higher average payoffs than Altruism players.
B. players on both islands will quickly converge to playing the Nash Equilibrium all of the time.
C. Altruism players will have higher average payoffs than Avarice players.
D. players on both islands will quickly converge to the higher-payoff non Nash Equilibrium result.

142. The use of psychological incentives to solve commitment problems would be least effective in games played

A. repeatedly between strangers.
B. once between family members.
C. repeatedly between family members.
D. once between strangers.

143. When parents encourage their children to be honest and punish them when they are not is an example of

A. child abuse.
B. using material incentives to solve commitment problems.
C. old fashioned parenting.
D. using preferences to solve commitment problems.

Chapter 09 Testbank Key

1. Game theory provides tools that are used to model

A. how perfectly competitive firms behave.

B. cost functions faced by firms.

C. consumer demand.

D. interdependence.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 09 #1

Learning Objective: 09-01 Describe the basic elements of a game.

Section: Using Game Theory to Analyze Strategic Decisions

2. The three elements of a game are

A. the firm, the consumers and the profit

B. the players, the strategies and the payoffs

C. the model, the graph and the costs

D. the costs, the revenue and the profit

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 09 #2

Learning Objective: 09-01 Describe the basic elements of a game.

Section: Using Game Theory to Analyze Strategic Decisions

3. Game theory is not useful in understanding perfect competition because

A. by assumption, the firms are so small as to be unable to influence price and thus are not interdependent.
B. perfectly competitive firms are honest.
C. the players can't be identified.
D. the payoffs to their choices are unknown.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #3
Learning Objective: 09-01 Describe the basic elements of a game.
Section: Using Game Theory to Analyze Strategic Decisions

4. Which of the following situations does not involve game theory?

A. Buying a pair of pants at the Gap.
B. The government deciding to spend more on defense.
C. Intel debating whether to lower the price on its microprocessors.
D. A student considering cheating on this exam.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #4
Learning Objective: 09-01 Describe the basic elements of a game.
Section: Using Game Theory to Analyze Strategic Decisions

5. A payoff matrix is used to show

A. the payoff to being a monopolist relative to a competitive firm.

B. the demand curve faced by two competing firms.

C. each player's payoffs in each possible combination of strategies.

D. the sequence of strategies played in a game over time.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 09 #5

Learning Objective: 09-01 Describe the basic elements of a game.

Section: Using Game Theory to Analyze Strategic Decisions

		Khalid	
		A	B
Rami	C	D	E
	F	G	H

Frank - Chapter 09

6. Refer to the figure above. In the payoff matrix shown, which cells would show Rami's possible strategies?

A. C and F

B. A and B

C. D, E, G and H

D. D and G

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 09 #6

Learning Objective: 09-01 Describe the basic elements of a game.

Section: Using Game Theory to Analyze Strategic Decisions

7. Refer to the figure above. In the payoff matrix shown, Khalid may choose

A. from among D, E, G and H.

B. D only if Rami has chosen C first.

C. G only if Rami has also chosen G.

D. between A and B.

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Blooms: Understanding
Frank - Chapter 09 #7
Learning Objective: 09-01 Describe the basic elements of a game.
Section: Using Game Theory to Analyze Strategic Decisions

8. Refer to the figure above. In the payoff matrix show, the letter D denotes

A. Rami's payoff from choosing D.

B. Khalid' payoff from choosing D.

C. each player's payoff if they both choose D.

D. each player's payoff if Khalid chooses A at the same time Rami chooses C.

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Blooms: Understanding
Frank - Chapter 09 #8
Learning Objective: 09-01 Describe the basic elements of a game.
Section: Using Game Theory to Analyze Strategic Decisions

9. Refer to the figure above. If Khalid chooses B, the payoffs will be

A. E

B. H

C. either E or H

D. B

AACSB: Analytical Skills

Blooms: Understanding
Frank - Chapter 09 #9
Learning Objective: 09-01 Describe the basic elements of a game.
Section: Using Game Theory to Analyze Strategic Decisions

10. Refer to the figure above. A dominant strategy occurs when

A. one player has a strategy that yields the highest payoff regardless of the other player's choice.
B. both players have a strategy that yields the highest payoff independent of the other's choice.
C. both players make the same choice.
D. the payoff is the maximum possible combination of payoffs in the game.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #10
Learning Objective: 09-02 Define and find an equilibrium for a game.
Section: Using Game Theory to Analyze Strategic Decisions

		Player B	
		LEFT	RIGHT
Player A	UP	5 for A 30 for B	10 for A 12 for B
	DOWN	-2 for A 10 for B	8 for A 15 for B

Frank - Chapter 09

11. Refer to the figure above. In this game, how many dominant strategies does Player A have?

A. 0
B. 1
C. 2
D. 4

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #11

Learning Objective: 09-03 Recognize and show the effects of dominant strategies.
Section: Using Game Theory to Analyze Strategic Decisions

12. Refer to the figure above. In this game, how many dominant strategies does Player B have?

A. 0
B. 1
C. 2
D. 4

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Blooms: Application
Frank - Chapter 09 #12
Learning Objective: 09-03 Recognize and show the effects of dominant strategies.
Section: Using Game Theory to Analyze Strategic Decisions

13. Refer to the figure above. In this game, the dominated strategy for Player A

A. is to play up.
B. is to cooperate with Player B.
C. is to play down.
D. will depend on Player B's move.

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Blooms: Application
Frank - Chapter 09 #13
Learning Objective: 09-03 Recognize and show the effects of dominant strategies.
Section: Using Game Theory to Analyze Strategic Decisions

14. Refer to the figure above. How many equilibria are there?

A. 0

B. 1

C. 2

D. 3

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #14
Learning Objective: 09-02 Define and find an equilibrium for a game.
Section: Using Game Theory to Analyze Strategic Decisions

15. Refer to the figure above. Player B can infer that Player A will

A. always choose the Down strategy.

B. always choose the Up strategy.

C. choose Down when B chooses Left and choose Up when B chooses Right.

D. choose Up when B chooses Left and Down when B chooses Right.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #15
Learning Objective: 09-03 Recognize and show the effects of dominant strategies.
Section: Using Game Theory to Analyze Strategic Decisions

16. Refer to the figure above. Player A can infer that Player B will

A. always choose the Left strategy.

B. always choose the Right strategy.

C. choose Left when A chooses Up and choose Right when A chooses Down.

D. Player A cannot infer anything about what Player B will do given this matrix.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #16

Learning Objective: 09-03 Recognize and show the effects of dominant strategies.

Section: Using Game Theory to Analyze Strategic Decisions

Jalal is the owner of the 24-7 Mini Mart, Salah is the owner of the 24-365 Mini Mart and together they are the only gas stations in town. At the current price of $3 per gallon both receive total revenues of $1,000. Jalal is considering cutting his price to $2.90, which would increase his total revenue to $1,350 if Salah continues to charge $3. If Salah's price remains $3 after Jalal cuts his price, Salah will collect $500 in revenues. If Salah cuts his price to $2.90, his total revenues would also rise to $1,350 if Jalal continues to charge $3. Jalal will collect $500 in revenues if he keeps his price at $3 while Salah lowers his to $2.90. Jalal and Salah will receive $900 each in total revenue if they both lower their price to $2.90. You may find it easier to answer the following questions if you fill in the payoff matrix below.

		Jalal	
		Cut Price	Keep Old Pric
Salah	Cut Price		
	Keep Old Price		

Frank - Chapter 09

17. To Jalal, leaving his price at $3 is a

A. revenue maximizing strategy.

B. dominant strategy.

C. dominated strategy.

D. profit maximization strategy.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #17

Learning Objective: 09-03 Recognize and show the effects of dominant strategies.

Section: Using Game Theory to Analyze Strategic Decisions

18. To Salah, cutting his price to $2.90 is a

A. revenue maximizing strategy.

B. dominant strategy.

C. dominated strategy.

D. profit maximizing strategy.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #18
Learning Objective: 09-03 Recognize and show the effects of dominant strategies.
Section: Using Game Theory to Analyze Strategic Decisions

19. The clear outcome of this game is that

A. Jalal will cut his price and Salah won't.

B. both will cut price to $2.90.

C. Salah will cut his price and Jalal won't.

D. neither Jalal nor Salah will cut their price.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #19
Learning Objective: 09-02 Define and find an equilibrium for a game.
Section: Using Game Theory to Analyze Strategic Decisions

20. To both Jalal and Salah, _____ is a _____.

A. cutting price to $2.90; disequilibrium.

B. leaving price at $3; Nash equilibrium.

C. leaving price at $3; dominant strategy.

D. cutting price to $2.90; Nash equilibrium.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #20

Learning Objective: 09-02 Define and find an equilibrium for a game.

Section: Using Game Theory to Analyze Strategic Decisions

21. In the Nash Equilibrium of a prisoner's dilemma game,

A. there is no cash left on the table.

B. there is unrealized opportunity for both to gain.

C. total economic surplus is maximized.

D. both players have equal payoffs.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 09 #21

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

		Khawlah	
		Strategy A	Strategy B
Salma	Strategy A	Salma: +5, Khawlah: +5	Salma: 0, Khawla
	Strategy B	Salma: +10, Khawlah: 0	Salma: -5, Khaw +10

		Cory	
		Strategy A	Strategy B
Jess	Strategy A	Jess: +5, Cory: +5	Jess: 0; Cory: -5
	Strategy B	Jess: +10; Cory: 0	Jess: -5; Cory: +10

22. Refer to the figure above. In the matrix above,

A. Salma has a dominant strategy, but Khawlah does not.

B. Khawlah has a dominant strategy, but Salma does not.

C. both Khawlah and Salma have the same dominant strategy.

D. neither Khawlah nor Salma has a dominant strategy.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #22
Learning Objective: 09-02 Define and find an equilibrium for a game.
Section: Using Game Theory to Analyze Strategic Decisions

23. Refer to the figure above. In the matrix above, Khawlah's best response to a decision by Salma to play Strategy A is

A. non existent.

B. to also choose Strategy A.

C. to choose Strategy B.

D. to choose the cell in which Khawlah's payoff is +10.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #23
Learning Objective: 09-02 Define and find an equilibrium for a game.
Section: Using Game Theory to Analyze Strategic Decisions

24. Refer to the figure above. This game has _____ Nash Equilibria.

A. 0

B. 1

C. 2

D. 4

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #24
Learning Objective: 09-02 Define and find an equilibrium for a game.
Section: Using Game Theory to Analyze Strategic Decisions

25. The prisoner's dilemma refers to games in which

A. neither player has a dominant strategy.

B. one player has a dominant strategy and the other does not.

C. both players have a dominant strategy which results in a lower payoff than they would earn if they play their dominated strategies.

D. both players have a dominant strategy which results in the largest possible payoff.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #25
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

26. The dilemma in the Prisoner's Dilemma comes from the fact that

A. the outcome is purely random.

B. no strategy is dominant.

C. if both players play the dominant strategy they each earn a smaller payoff than had they played the dominated strategy.

D. it was originally devised to explain the behavior of prisoners.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 09 #26

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

27. The equilibrium in a prisoner's dilemma is an example of

A. the low-hanging fruit principle

B. the comparative advantage principle

C. the equilibrium principle

D. the smart for one, dumb for all principle

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 09 #27

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

		Column Cruises	
		Offer Reduced Summer Rates	Keep Rates High in Summer
Row Resorts	Offer Reduced Summer Rates	Row: 50, Column: 50	Row: 500, Column: 10
	Keep Rates High in Summer	Row: 10, Column: 500	Row: 300, Column: 300

Frank - Chapter 09

28. Refer to the figure above. If Column Cruises offers reduced rates in the summer, and Row Resorts keeps its rates high in the summer,

A. Both Row Resorts and Column Cruises will earn 300 in profits.
B. Both Row Resorts and Column Cruises will earn 50 in profits.
C. Row Resorts will earn profits of 500 and Column Cruises will earn profits of 10.
D. Row Resorts will earn profits of 10 and Column Cruises will earn profits of 500.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #28
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

29. Refer to the figure above. If Row Resorts decides to lower its rates for the summer, Column Cruises would make the most profit if it

A. kept its rates high for the summer.
B. also lowered its rates for the summer.
C. entered into a cartel with Row Resorts and agreed to jointly reduce rates.
D. It doesn't matter which strategy is chosen because Column Cruises will have the same payoff in either case.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #29
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

30. Refer to the figure above. If Row Resorts decides to keep its rates high for the summer, Column Cruises would get the highest payoff by

A. also keeping its rates high in the summer.
B. offering reduced summer rates.
C. agreeing with Row Resorts to both lower their rates at exactly the same time.
D. it doesn't matter which he chooses because he will have the same payoff in either case.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #30
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

31. Refer to the figure above. The dominant strategy for Row Resorts is _____ and for Column Cruises is _____.

A. to keep rates high during the summer; to keep rates high during the summer
B. to reduce rates during the summer; to reduce rates during the summer
C. to keep rates high during the summer; to reduce rates during the summer
D. to reduce rates during the summer; to keep rates high during the summer

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #31
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

32. Refer to the figure above. In this game, when both players use their dominant strategies

A. profits are maximized.

B. Row Resorts earns a higher profit than does Column Cruises.

C. both firms do worse than they would if they played their dominated strategies.

D. Column Cruises earns a higher profit than does Row Resorts.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #32
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

33. For a game involving two players with two possible strategies, which of the following is a requirement for a prisoner's dilemma?

A. Neither player has a dominant strategy.

B. The payoff to playing the dominated strategies must be more than the payoff to their dominant strategies.

C. The payoff to playing the dominant strategies must be more than the payoff to their dominated strategies.

D. There is no Nash equilibrium.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #33
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

The table below shows the payoff matrix for players A and B to strategies X and Z.

		Player B	
		X	Z
Player A	X	\$100 for A \$75 for B	\$200 for A \$50 for B
	Z	\$50 for A \$400 for B	\$150 for A \$300 for B

34. For Player A strategy X is _____ and for Player B strategy X is _____.

A. dominant; dominated

B. dominated; dominant

C. dominant; dominant

D. dominated; dominated

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #34
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

35. The Nash equilibrium for this game is

A. player A choosing strategy Z and player B choosing strategy X.

B. player A choosing strategy X and player B choosing strategy Z.

C. both players choosing strategy Z.

D. both players choosing strategy X.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #35
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

36. This game would be classified as a prisoner's dilemma because

A. the players play their dominant strategies.

B. playing their dominated strategies would increase both players' payoffs.

C. playing dominant strategies gives both player maximum payoff.

D. both players choose the same strategy.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #36

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

The table below shows the payoff matrix in the form of short term profits for two firms, A and B, for two different strategies, investing in new capital or not.

		Firm B	
		Invest	Not Invest
Firm A	Invest	\$20 for A \$20 for B	\$70 for A \$5 for B
	Not Invest	\$5 for A \$70 for B	\$50 for A \$50 for B

Frank - Chapter 09

37. For Firm A _____ is its dominant strategy, and for Firm B _____ is its dominant strategy.

A. investing; not investing.

B. not investing; investing

C. investing; investing

D. not investing; not investing

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #37

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

38. The game is an example of a(n)

A. cartel.

B. credible promise.

C. prisoner's dilemma.

D. multiple equilibria game.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #38

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

39. An industrial spy comes to firm B and claims to know what firm A has decided. How much would this information be worth to firm B?

A. 0.

B. $50 million.

C. $30 million.

D. $70 million.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #39

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

The numbers in each cell are each firm's profits.

		Column Cafe	
		Publish Coupons in Student Paper	*No Coupons*
Row Restaurant	*Publish Coupons in Student Paper*	Row: 25, Column: 25	Row: 200, Column: 10
	No Coupons	Row: 10, Column: 200	Row: 120, Column: 120

Frank - Chapter 09

40. If Column Cafe offers coupons, and Row Restaurants does not publish coupons,

A. Row Restaurant will earn $10 in profits, and Column Cafe will earn 200 in profits.
B. Both Row Restaurant and Column Cafe will earn 25 in profits.
C. Row Restaurant will earn profits of 200 and Column Cafe will earn profits of 10.
D. Both Row Restaurant and Column Cafe will earn profits of 120.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #40
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

41. If Row Restaurant decides to publish coupons, Column Cafe would make the most profit if it

A. did not offer coupons.
B. also offered coupons.
C. it doesn't matter which strategy is chosen because Column Cafe will have the same payoff in either case.
D. offered coupons half of the time and did not offer coupons the rest of the time.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #41
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

42. The payoffs of this game are such that

A. if Row Restaurant expects that Column Cafe will choose its dominant strategy, Row should choose to not follow its own dominant strategy.
B. profits at both firms would be highest if both firms follow their dominant strategies.
C. both firms would benefit from a law that made publishing coupons illegal.
D. an agreement to not publish coupons would be stable because with these profits neither firm has an incentive to defect.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #42
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

43. An agreement among firms to restrict production with the goal of earning economic profits is a

A. pure monopoly.
B. oligopoly.
C. cartel.
D. duopoly.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #43
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

44. The reason most cartels end or cease to be effective is

A. enforcement of antitrust legislation.

B. the incentive to cheat on the cartel agreement.

C. the dominant member firm buys out the other firms.

D. consumers discover the agreement and buy from other firms.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #44
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

45. Cartels would be more stable if

A. firms that cheat on the agreement could be legally punished.

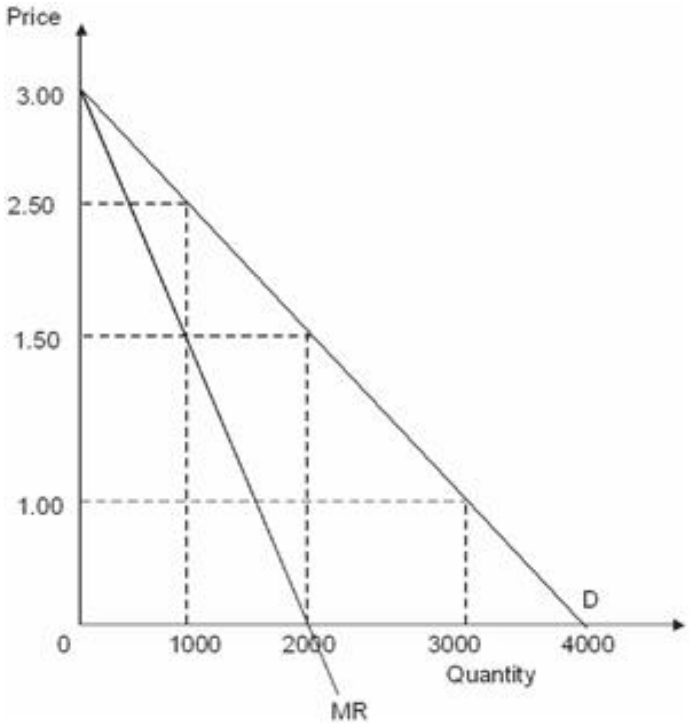
B. firms that cheat on the agreement were better informed about the value of agreement.

C. demand for the output was more variable.

D. the cartel profit were higher than the profit each individual firm could earn without the cartel.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #45
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

Quick Buck and Pushy Sales produce and sell identical products and face zero marginal and average cost. Below is the market demand curve for the product.



Frank - Chapter 09

46. The profit-maximizing quantity for a monopolist with this demand curve is _____ units, which the monopolist would sell for _____.

A. 3000; $1.00

B. 1000; $1.50

C. 2000; $1.50

D. 1000; $2.50

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #46

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

47. If Quick Buck and Pushy Sales decide to collude and work as a pure monopolist so that each firm will produce half the quantity demanded by the market, what will be the economic profit for Quick Buck?

A. $1000

B. $1500

C. $2000

D. $3000

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #47
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

48. Suppose Quick Buck cheats on Pushy Sales and reduces its price to $1.00 each while Pushy Sales continues to comply with the collusive agreement. Quick Buck would then sell _____ units and Pushy Sales would sell _____ units.

A. 0; 3000

B. 1500; 1500

C. 2000; 1000

D. 3000; 0

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #48
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

49. Suppose Quick Buck cheats on Pushy Sales and reduces its price to $1.00 each while Pushy Sales continues to comply with the collusive agreement. What will be the economic profit for Quick Buck?

A. $6000
B. $1500
C. $2000
D. $3000

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #49
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

50. Suppose Quick Buck cheats on Pushy Sales and reduces its price to $1.00 and Pushy Sales matches the price cut. What will be the economic profit for Quick Buck?

A. $1000
B. $1500
C. $2000
D. $3000

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #50
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

Suppose Firm A and Firm B produce and sell identical product with zero marginal and average cost. Following is the market demand curve for the product.

Frank - Chapter 09

51. The profit-maximizing quantity and price for a monopolist with this demand curve are _____.

A. 50 units and $2

B. 100 units and $2

C. 50 units and $3

D. 100 units and $1

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #51

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

52. If Firm A and Firm B decide to collude and work as a pure monopolist such that each firm will produce half the quantity demanded by the market, what will be the economic profit for Firm B?

A. $0

B. $50

C. $100

D. $150

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #52

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

53. Suppose Firm A and Firm B have colluded to work as a pure monopolist, but Firm B cheats on Firm A and reduces its price to $1.00/ each. Firm B would then sell ____ units and Firm A would sell _____ units.

A. 150; 50

B. 100; 50

C. 150; 0

D. 100; 0

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #53

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

54. Suppose Firm A and Firm B have colluded to work as a pure monopolist, but Firm B cheats on Firm A and reduces its price to $1.00/ each. How much profit will Firm B earn?

A. $75
B. $100
C. $150
D. $200

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #54
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

55. Suppose Firm A and Firm B have colluded to work as a pure monopolist, but Firm B cheats on Firm A and reduces its price to $1.00/ each. If Firm A matches the price cut, what will Firm A's economic profit be?

A. $75
B. $100
C. $150
D. $200

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #55
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

56. OPEC is an example of a(n)

A. monopsony.

B. cartel.

C. monopoly.

D. duopoly.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #56
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

57. Suppose that market demand for bottled water is low enough that one firm could supply all of the demand. Two firms enter the market and agree to charge a price above the marginal cost of production. We can expect that

A. they will make a considerably large profit.

B. they will work better than a cartel.

C. this agreement will collapse.

D. if one firm does not honor the agreement the other firm will sue for breach of contract.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #57
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

58. Cigarette manufacturers once relied heavily on TV advertising. According to the textbook, when the U.S. government banned TV ads, the cigarette manufacturers

A. supported the ban due to their concern over health effects of smoking.

B. felt their First Amendment rights were being violated.

C. were made worse off because the ban significantly reduced cigarette sales.

D. benefited because their advertising prisoner's dilemma was solved.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 09 #58

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

Suppose that the market for bread contains two firms: Bread World (BW) and Breads'R'Us (BRU). The owners of the two firms decide to fix the price of bread. The table shows the total profits the firms will earn if they abide by the price setting agreement or if they cheat on the agreement.

		Bread World	
		Cheat	Abide
Breads'R'US	Cheat	BRU: $40, BW: $40	BRU: $80, BW:
	Abide	BRU: $0, BW: $80	BRU: $45, BW:

Frank - Chapter 09

59. For Bread World, _____ is its _____.

A. abiding by the agreement; dominant strategy

B. cheating on the agreement; dominated strategy

C. cheating on the agreement; dominant strategy

D. abiding by the agreement; dominant strategy when Breads'R'Us also abides.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #59

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

60. For Breads 'R' Us, _____ is its _____.

A. abiding by the agreement; dominant strategy

B. cheating on the agreement; dominated strategy

C. cheating on the agreement; dominant strategy

D. abiding by the agreement; dominant strategy when Bread World also abides.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #60

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

61. This game has _____ with _____.

A. a Nash equilibrium; both firms abiding by the agreement

B. no equilibrium; no prediction about which strategy will be chosen

C. a Nash equilibrium; both firms cheating

D. a Nash equilibrium; Bread World cheating and Breads 'R' Us abiding

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #61

Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.

Section: The Prisoners Dilemma

62. This game is _____ prisoner's dilemma because _____.

A. not a; cheating has the highest payoff for both firms.

B. a; if both firms played their dominated strategy profits would be higher than if they play their dominant strategies.

C. a; if both firms played their dominant strategy profits would be higher than if they play their dominated strategies.

D. not a; neither firm has a dominant strategy.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #62
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

63. Suppose a new element was introduced into the agreement: if one firm cheats today, the other firm will cheat tomorrow but if one firm abides today, the other will abide tomorrow. This strategy pattern is known as

A. the prisoner's dilemma

B. cartel-like behavior

C. tit-for-tat.

D. mutual cooperation

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #63
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

64. Suppose the firms agree to the following: if one firm cheats today, the other firm will cheat tomorrow but if one firm abides today, the other will abide tomorrow. The likely effect of this agreement would be

A. to increase the probability that both firms would cheat.
B. to increase the probability that Bread World would cheat.
C. to increase the probability that both firms would abide.
D. to increase the probability that Breads 'R' Us would cheat.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #64
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

65. Which of the following core principles applies to the prisoner's dilemma?

A. No cash on the table.
B. Smart for one, dumb for all.
C. Low hanging fruit.
D. Scarcity.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #65
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

66. According to the text, at a party everyone shouts in order to be heard. If instead everyone spoke at a normal volume people would still be heard. The likely reason that people continue to shout is that the

A. individual incentive to be heard is smaller than group incentive for everyone to be heard.
B. individual incentive to be heard is greater than group incentive for everyone to be heard.
C. individuals will never do better by speaking more loudly.
D. prisoner's dilemma does not work in a party.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #66
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

67. A strategy that limits defection in a repeated prisoner's dilemma game is

A. a Nash equilibrium.
B. tit-for-tat.
C. a cartel.
D. an ultimatum bargaining game.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #67
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

68. The tit-for-tat strategy only works for prisoner's dilemma games that

A. have only one Nash equilibrium.

B. are played only one time.

C. have no Nash equilibrium.

D. are repeated.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #68
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

69. In tit-for-tat, if your partner _____ on the first interaction you would then _____ in your next interaction with her.

A. defected; cooperate

B. defected; defect

C. cooperates; defect

D. defected; refuse to play

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #69
Learning Objective: 09-04 Define and explain the Prisoner's Dilemma and how it applies to real-world situations.
Section: The Prisoners Dilemma

70. A decision tree is used when modeling

A. any type of game.

B. simultaneous decisions.

C. a prisoner's dilemma

D. games in which timing matters.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #70
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

71. A ____ describes all of the possible moves in a game in sequence and the payoffs to each possible combination of moves.

A. decision tree.

B. payoff matrix.

C. game graph.

D. multi-period game.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #71
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

72. A credible threat is an action that is

A. possible to carry out.

B. legally enforceable.

C. in the threatener's self interest to carry out.

D. not in the threatener's self interest to carry out.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #72
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

73. A credible promise is an action that is

A. in the promiser's self interest to keep.

B. legally enforceable.

C. made by an honest person.

D. possible to keep.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #73
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

74. The essential characteristic of a credible threat is

A. that the threatener has a reputation for carrying out threats.

B. that the threatener ignores the costs of carrying out the threat.

C. that the threatener and the threatenee know each other well.

D. that it is in the threatener's self interest to act on the threat.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 09 #74

Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.

Section: Games in Which Timing Matters

75. The essential characteristic of a credible promise is

A. it must be spoken with great sincerity.

B. it must be in the self interest of the promiser to keep the promise.

C. that the promise be in writing.

D. that it is legally enforceable.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 09 #75

Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.

Section: Games in Which Timing Matters

Suppose Yasmin and Nadia are trying to decide what to do on a Friday. Yasmin would prefer to see a comedy while Nadia would prefer to see a documentary. One documentary and one comedy are showing at the local cinema. The utilities they receive from seeing the films either together or separately are shown in the payoff matrix. Both Yasmin and Nadia know the information contained in the payoff matrix. They purchase their tickets simultaneously, ignorant of the other's choice.

		Yasmin	
		Comedy	Documentary
Nadia	Comedy	Nadia: 3, Yasmin: 5	Nadia: 1, Yasmi
	Documentary	Nadia: 2, Yasmin: 2	Nadia: 5, Yasmi

Frank - Chapter 09

76. Yasmin has

A. no dominant strategy.

B. a dominant strategy of seeing a comedy.

C. a dominant strategy of seeing a documentary.

D. two dominant strategies, depending on Nadia's choice.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #76
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

77. Nadia has

A. no dominant strategy.

B. a dominant strategy of seeing a comedy.

C. a dominant strategy of seeing a documentary.

D. two dominant strategies, depending on Yasmin's choice.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #77
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

78. This game

A. is a prisoner's dilemma.

B. is not a prisoner's dilemma.

C. is an ultimatum bargaining game.

D. has no Nash equilibrium.

AACSB: Analytical Skills

Blooms: Knowledge
Frank - Chapter 09 #78
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

79. This game has _____ Nash equilibrium.

A. 0.
B. 1.
C. 2.
D. 4.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #79
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

80. Suppose a timing element is added to the game, and that Yasmin buys a ticket first. While Nadia did not see which ticket Yasmin bought, Nadia does know the values in the payoff matrix and that Yasmin has purchased first. Assuming that Yasmin and Nadia are both self-interested, Nadia can infer

A. that Yasmin bought a ticket for the documentary.
B. that Yasmin did not exploit the first-mover advantage.
C. that Yasmin bought a ticket for the comedy.
D. that Yasmin's threat to buy a ticket for the comedy is not credible.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #80
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

81. Assuming Nadia is self-interested and believes Yasmin is as well, if Nadia knows that Yasmin bought a ticket first, Nadia will

A. be indifferent between the two movies.

B. buy a ticket to the comedy.

C. flip a coin.

D. buy a ticket to the documentary.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #81
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

82. Suppose Yasmin picks first and chooses the comedy and then Nadia choose the comedy. The reason Nadia selected the comedy is that

A. Nadia receives a higher payoff choosing comedy when Yasmin has chosen comedy.

B. Nadia must establish a reputation for keeping promises even If it is not in Nadia's immediate self-interest to do so.

C. selecting the comedy is Nadia's dominant strategy regardless of Yasmin's choice.

D. this is a prisoner's dilemma, and so the players do best when choosing the same strategy.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #82
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

83. In sequential games, the player who moves first

A. always has a first-mover advantage.
B. has a first-mover advantage only when he or she is able to make a credible threat or promise to choose a dominated strategy.
C. has a first-mover advantage only when the second mover fails to choose the dominant strategy.
D. sometimes has an advantage and sometimes has a disadvantage.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #83
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

84. A monopolistically competitive firm

A. sells products that are perfect substitutes for its competitors' products, so must compete on the basis of location.
B. sells products that are close substitutes for its competitors' products, so will locate as far away from its competitors as possible.
C. sometimes distinguishes its output from that of its competitors by locating in a more convenient place.
D. will be more successful the more similar its output is to its competitors' output.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #84
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

85. If Harold Hotelling's insight about location is extended to other firm decisions, you would expect the output of monopolistically competitive firms to become

A. more differentiated over time.
B. more similar over time, while location, hours and other features become more differentiated over time.
C. more similar over time, with location, hours and other features also becoming more similar over time.
D. lower in quality over time.

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 09 #85
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

86. Suppose that you have noticed that almost all of the car dealers in your city are located along a 3-block stretch of the same street. A likely reason for this clustering of car dealers is that

A. the dealers are better able to form a cartel.
B. each dealer is attempting to locate closest to the customers.
C. there is a social norm in that city that dealers follow in choosing location.
D. each dealer sells a different brand of car, so they are not competitors and do not have to be concerned about the other dealers' locations.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #86
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

One thousand adults live in your town, and all of them leave work at 4:30 p.m. everyday and arrive home at exactly 5:00. They all go to bed at 9 p.m. Three telemarketers selling cruises to Sharm El Sheikh, Alpha, Beta, and Gamma, have targeted the town's population. Because the cruises are identical, the first telemarketer to call a willing consumer will get the sale.

Frank - Chapter 09

87. The solution to the firms' problem will involve

A. differentiation by timing
B. differentiation by geographic location
C. exploiting perfectly inelastic demand
D. differentiation by quality

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #87
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

88. Beta's manager has decided that the best time to call is 7:00 because it is exactly halfway between 5:00 p.m. and bedtime.

A. Beta is certain to make the most sales because all customers are 2 hours or less away from a phone call.
B. Alpha and Gamma will have an incentive to also make calls at 7:00, causing clustering at the halfway point in the evening.
C. Alpha and Gamma will divide up the rest of the market, with one choosing to call at 6:00 and the other at 8:00.
D. Beta's manager did not choose wisely.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #88
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.

Section: Games in Which Timing Matters

89. Calls made by telemarketers at each firm will tend to

A. be evenly distributed throughout the evening.

B. cluster near 5:00 p.m.

C. cluster near 6:00 p.m.

D. cluster near 7:00 p.m.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #89
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

90. The last time you went on a road trip, you noticed that there were several fast food outlets clustered near some highway exits, but none at the others. Now that you are familiar with Hotelling's model you know that the reason for this is

A. zoning laws.

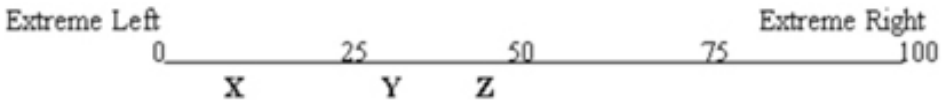
B. firms vying for a favorable location.

C. failure by the firms to correctly distribute themselves.

D. the existence of fast food cartels.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #90
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

Hotelling's model has been used to describe differentiation in the political "market." Suppose that 100 voters are evenly arrayed between the extreme left and the extreme right on the political spectrum, and that all voters vote, and they always vote for the candidate closest to them on this spectrum. The numbers on this spectrum represent the number of voters lying to the left of the number. So, at the midpoint, fifty voters lie to the left and fifty to the right. At the extreme right end, all 100 voters lie to the left.



Frank - Chapter 09

91. If Candidate X is running for office against Candidate Z, the result will be that

A. all voters to the left of Z will vote for X, and all voters to the right of Z will vote for Z.
B. all voters who would have voted for Candidate Y will vote for Candidate X.
C. Candidate Z will certainly win.
D. Candidate X might win, but the result is uncertain.

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 09 #91
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

92. Suppose Candidate X is running against Candidate Y. If Candidate Z enters the race,

A. approximately half of the voters who were going to vote for X will now vote for Z.
B. X will certainly win because Y and Z compete for the same voters.
C. all of the voters who were going to vote for Y will now vote for Z.
D. most of the voters who were going to vote for Y will now vote for Z.

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 09 #92
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.

Section: Games in Which Timing Matters

93. If Candidate X is running against Candidate Z, by moving to the right Candidate X would

A. lose some votes from the far left but gain approximately the same number of votes from Z.

B. not lose any votes from the left and gain some from Z.

C. force Z to move farther to the right in order to keep the same number of votes.

D. win the election if the move placed X anywhere to the right of the 25 mark on the spectrum.

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 09 #93
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

94. If Candidate Y is running against Candidate Z,

A. Candidate Y will have an incentive to move to the left, and Candidate Z will have an incentive to move to the right.

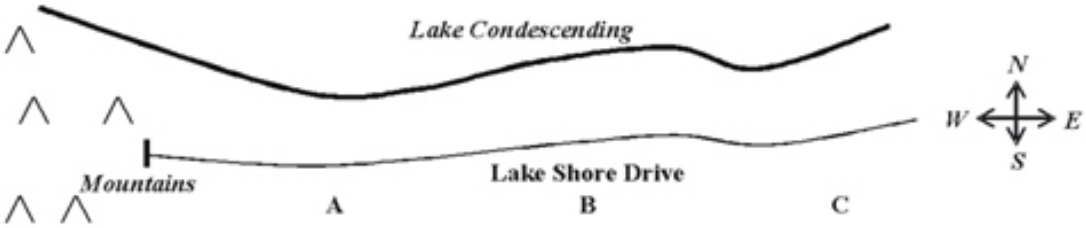
B. Both candidates will have an incentive to move to the left.

C. Both candidates will have an incentive to move toward each other's position.

D. Neither candidate has any incentive to move.

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 09 #94
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

Miniville is an isolated town located on the southern shore of Lake Condescending, a very large lake. The western edge of Miniville is adjacent to impassable mountains and there are no towns or businesses for many miles to the east. The 300 residents of Miniville are evenly distributed along 3 miles of shoreline on the lake, east of the mountains. Lake Shore Drive, the only street in town, provides access to Miniville's homes and businesses. All residents live between the lake and the street, while businesses may locate on the other side of the street. Lake Shore Drive is 3 miles long, and the points labeled A, B, and C are 1, 2, and 3 miles from the western end of Lake Shore Drive respectively. All residents of Miniville shop at the store located closest to their homes.



Frank - Chapter 09

95. _____ residents of Miniville live west of point B and _____ live east of point A.

A. 100; 200

B. 150; 150

C. 200; 200

D. 200; 100

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #95

Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.

Section: Games in Which Timing Matters

96. Because all residents of Miniville shop at the store located closest to their homes, the optimal location for the first store to open in Miniville is

A. at the western end of Lake Shore Drive

B. there is no single optimal location for the first store.

C. Point A.

D. Point C.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #96
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

97. If one store is located at A and the other store is located at B,

A. all of the people living between A and the mountains will shop at the store at A.

B. some, but not all, of the people living east of B will shop at the store at B.

C. exactly half of the people living west of B will shop at the store at B.

D. exactly half of the people living east of B will shop at the store at B.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #97
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

98. If one store is located at A and the other store is located at C,

A. 150 people will shop at each store.

B. 200 people will shop at the store at A, and 100 people will shop at the store at C.

C. 100 people will shop at the store at A, and 200 people will shop at the store at C.

D. 100 people will certainly shop at each store, but where the other 100 will shop is indeterminant.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #98
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

99. If the first store to open in Miniville is located at A, to maximize the number of customers it attracts, the next store to open should locate

A. just west of A

B. at B

C. at C

D. just east of A

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #99
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

100. If three stores were to open sequentially, you would expect that those stores would be located

A. at points A, B, and C.
B. halfway between the mountains and A, halfway between A and B, and halfway between B and C.
C. in a cluster, near point B.
D. in a cluster, near the location chosen by the first store to locate.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #100
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

101. According to the text, the observation that many New York – Los Angeles flights leave exactly on the hour is due to

A. air traffic controllers' preferences.
B. clustering by competing firms to attract customers.
C. cartel-like behavior.
D. an effort to make flight times easier to remember for passengers.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #101
Learning Objective: 09-05 Show how games in which timing matters differ from games in which it does not.
Section: Games in Which Timing Matters

102. When players cannot achieve their goals because they are unable to make credible threats or promises, the situation is called

A. the prisoner's dilemma.

B. a Nash equilibrium.

C. a failure of dominant strategies.

D. a commitment problem.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 09 #102

Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.

Section: Commitment Problems

103. A commitment problem exists when

A. players cannot make credible threats or promises.

B. players cannot make threats.

C. there is a prisoner's dilemma.

D. players cannot make promises.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 09 #103

Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.

Section: Commitment Problems

104. An action that makes otherwise empty threats or promises credible is called a(n)

A. Nash equilibrium.

B. commitment device.

C. strategic device.

D. dominant strategy.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #104
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

105. According to the textbook, one possible way of solving the commitment problem in the kidnapping game is for the victim to

A. give the kidnapper a blank check.

B. promise never to reveal the kidnapper's identity.

C. offer to cut off one finger to show his sincerity.

D. do something illegal and allow the kidnapper to record it.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #105
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

106. According to the textbook, owners of restaurants have solved the _____ their wait staff by paying low wages and encouraging tipping by customers.

A. credible threats by

B. commitment problem with

C. credible promises by

D. salary problems of

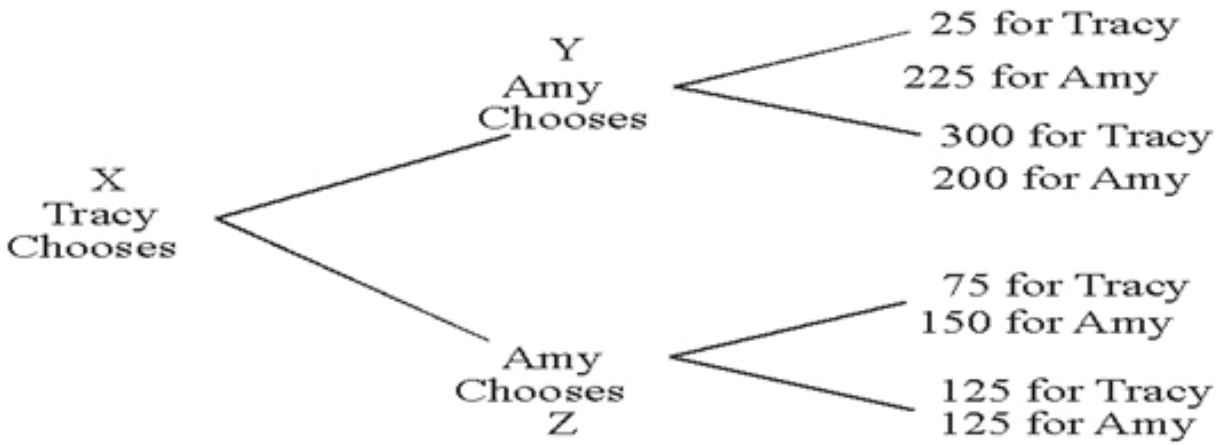
AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 09 #106

Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.

Section: Commitment Problems



In the above decision tree, Yusra picks first and Amal picks second. Yusra knows Amal's payoffs to each choice and Amal knows Yusra's payoffs.

Frank - Chapter 09

107. Based solely on the information in this decision tree, we can predict that

A. Yusra will always make the decision to give Amal the choice at Y, and Amal will then choose the lower branch.
B. Amal will make a credible promise to pick the lower branch if given the choice at Y and Yusra will make the decision to give Amal the choice at Y.
C. Yusra will always make the decision to give Amal the choice at Z and Amal will then choose the upper branch.
D. Yusra will always make the decision to give Amal the choice at Z and Amal will then choose the lower branch.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #107
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

108. Given the information in this decision tree, the equilibrium outcome of this game will be for Amal to choose the _____ after Yusra has made the decision that gives Amal the choice at _____.

A. lower branch; Y
B. upper branch; Y
C. lower branch; Z
D. upper branch; Z

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #108
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

109. If the payoffs at the end of each branch are as shown, the outcome of this game will be

A. Yusra and Amal both get 125.

B. Yusra gets 75 and Amal gets 150

C. Yusra gets 300 and Amal gets 200

D. Yusra gets 25 and Amal gets 225

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #109
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

110. If before Yusra chose, Amal could make a credible commitment to choose either the top or bottom branch when her turn came, Yusra would make the decision to give Amal the choice at _____ and Amal would choose the _____.

A. Z; top branch

B. Z; lower branch

C. Y; lower branch

D. Y; top branch

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #110
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

111. If before Yusra chose, Amal could make a credible commitment to choose either the top or bottom branch when her turn came, Yusra would get a payoff of _____ and Amal would get a payoff of _____.

A. 25; 225

B. 300; 200

C. 75; 150

D. 125; 125

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #111
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

112. The equilibrium to the game results in _____ for Amal and Yusra relative to what they would receive if they could solve their _____.

A. lower payoffs; prisoner's dilemma.

B. higher payoffs; commitment problem

C. lower payoffs; credible threat.

D. lower payoffs; commitment problem.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #112
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

113. Which of the following is not a commitment device used to overcome a commitment problem?

A. A non-refundable advance payment to reserve a room at a resort.
B. A manufacturer's 2-year agreement to fix, at no cost to you, anything that breaks on your computer.
C. An agreement that provides for a large penalty in the event a business partner reveals trade secrets to a competitor.
D. High fines for illegal parking on campus.

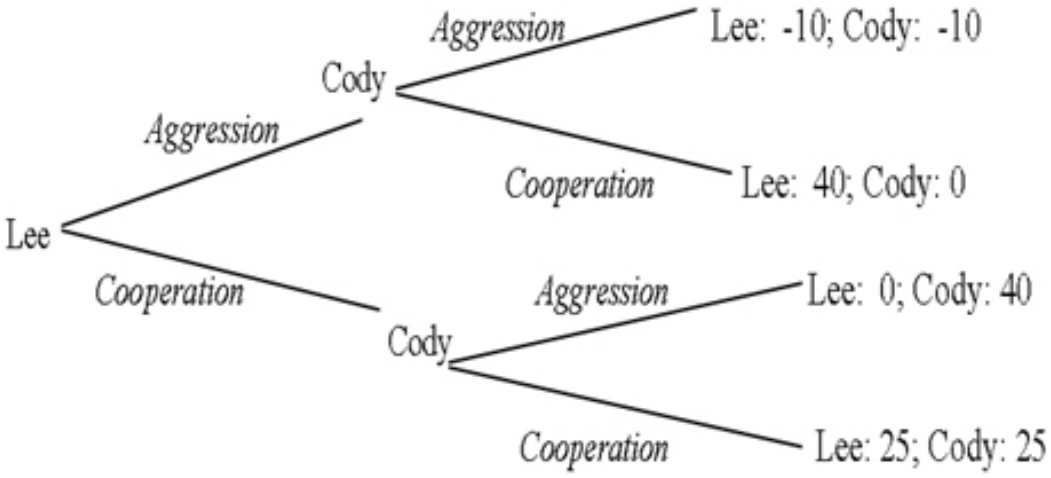
AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #113
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

114. One reason that commitment problems arise is that

A. people do not always correctly identify their own dominant strategy.
B. players cannot trust that other players will avoid playing their dominated strategy.
C. following through on a threat or promise often violates the cost-benefit principle.
D. commitments cannot be purchased.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #114
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

Lutfi and Kassim are competitors. Each is considering whether to take aggressive action against the other or to cooperate. Kassim can observe Lutfi's decision. Their decision tree can be diagrammed as follows:



Frank - Chapter 09

115. If Lutfi is aggressive, Kassim will respond with _____ and if Lutfi cooperates, Kassim will respond with ____.

A. Aggression; Cooperation

B. Aggression; Aggression

C. Cooperation; Aggression

D. Cooperation; Cooperation

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #115

Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.

Section: Commitment Problems

116. Suppose Kassim tells Lutfi that any aggression on Lutfi's part will be met with aggression, but that if Lutfi cooperates, Kassim will respond cooperatively. Kassim's statement is

A. a commitment device.

B. a non-credible threat and promise.

C. a description of the two equilibria for this game.

D. a credible threat and promise.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #116
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

117. The equilibrium for this game is for Lutfi to choose _____ and for Kassim to be _____ in response.

A. aggression; cooperative

B. aggression; aggressive

C. cooperation; cooperative

D. cooperation; aggressive

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #117
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

118. Suppose Lutfi and Kassim enter into a binding non-aggression agreement. As part of that agreement they negotiate a fine that Kassim would have to pay to Lutfi if Kassim responded to Lutfi's passive choice with aggression. For that fine to be effective, it must be

A. less than 15

B. greater than 15

C. equal to 40

D. equal to 25.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #118

Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.

Section: Commitment Problems

Mexico and the members of OPEC produce crude oil. Realizing that it would be in their best interests to form an agreement on production goals, a meeting is arranged and an informal, verbal agreement is reached. If both Mexico and OPEC stick to the agreement OPEC will earn profits of $200 million and Mexico will earn profits of $100 million. If both Mexico and OPEC cheat then OPEC will earn $175 million and Mexico will earn $80 million. If only OPEC cheats, then OPEC earns $185 million and Mexico $60 million. If only Mexico cheats, then Mexico earns $110 million and OPEC $150 million.

		OPEC	
		Cheat	Abide
Mexico	Cheat		
	Abide		

Frank - Chapter 09

119. To Mexico, the payoff to cheating is either

A. $60 million or $100 million.

B. $150 million or $200 million.

C. $80 million or $110 million.

D. $100 million or $110 million.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #119
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

120. To OPEC, the payoff to not cheating is either

A. $150 million or $200 million.

B. $200 million or $185 million.

C. $60 million or $100 million.

D. $175 million or $185 million

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #120
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

121. Mexico finds that it has

A. no dominant strategy.

B. a dominant strategy of not cheating.

C. no dominated strategy.

D. a dominant strategy of cheating.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #121

Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.

Section: Commitment Problems

122. OPEC finds that it has

A. a dominant strategy of cheating.

B. a dominated strategy of cheating.

C. a dominant strategy of not cheating.

D. no dominant strategy.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #122

Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.

Section: Commitment Problems

123. The outcome of this game is

A. a Nash equilibrium with both Mexico and OPEC not cheating.

B. a Nash equilibrium with both Mexico and OPEC cheating.

C. a Nash equilibrium with Mexico cheating and OPEC not cheating.

D. a Nash equilibrium with Mexico not cheating and OPEC cheating.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #123

Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.

Section: Commitment Problems

124. This game would _____ because _____.

A. be a prisoner's dilemma; not cheating is better for both

B. not be a prisoner's dilemma; cheating is better for both

C. be a prisoner's dilemma; cheating is better for both

D. not be a prisoner's dilemma; OPEC does not have a dominant strategy

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #124
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

125. Suppose Mexico picks its strategy first and OPEC knows what they choose. OPEC told Mexico that in the event Mexico cheats on the agreement, OPEC will cheat as well but if Mexico does not cheat, neither will OPEC. This is an example of a(n) _____ and the outcome is that _____

A. commitment problem; neither will cheat.

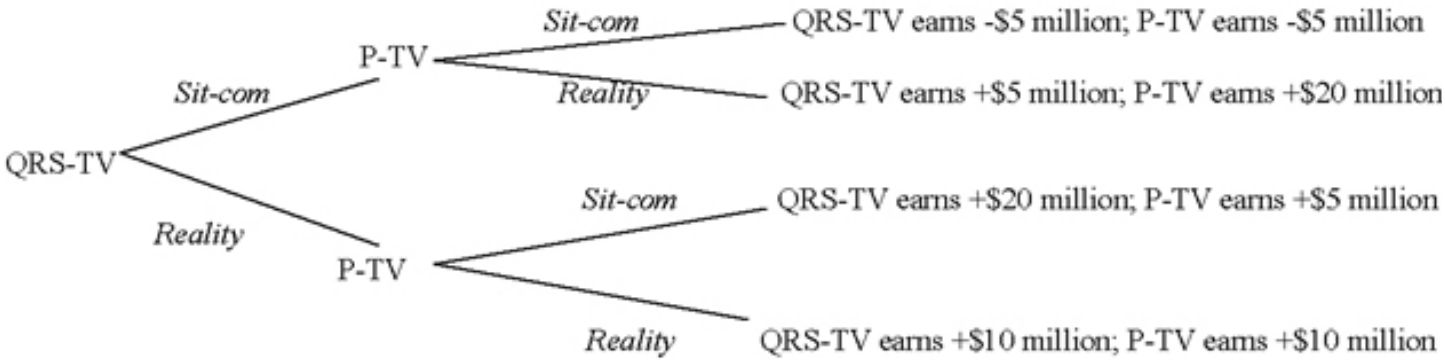
B. credible threat and promise; neither will cheat.

C. prisoners dilemma; both will cheat.

D. not credible threat or promise; both will cheat.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #125
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

P-TV and QRS-TV are planning their fall line-up. Suppose that sit-coms are more popular than reality shows, and so generate more advertising revenue than do reality shows, but they are more expensive to produce since real actors need to be hired. In the following decision tree, QRS-TV announces its decision first and P-TV observes that choice before it decides whether to air a sit-com in the same time slot or a reality show. Both stations know all of the information shown in this diagram when they make their decisions.



Frank - Chapter 09

126. Given the information in this decision tree, if QRS-TV announces that it will air a sit-com, it can expect to

A. lose $5 million

B. earn $5 million

C. earn $10 million

D. earn $29 million

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #126

Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.

Section: Commitment Problems

127. Given the information in this decision tree, if QRS-TV announces that it will air a reality show, it can expect to

A. lose $5 million

B. earn $5 million

C. earn $10 million

D. earn $20 million

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #127
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

128. P-TV will air a sit-com

A. only if QRS-TV is also airing a sit-com.

B. only if QRS-TV is airing a reality show.

C. always.

D. never.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #128
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

129. Given the information in this decision tree, this season programming in this time slot on QRS-TV and P-TV will be

A. only reality shows.

B. only sit-coms.

C. a sit-com on QRS-TV and a reality show on P-TV.

D. a reality show on QRS-TV and a sit-com on P-TV.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #129
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

130. Suppose QRS-TV enters into an agreement with P-TV that gives QRS-TV the exclusive right to air a reality show during this time slot. QRS-TV would have to pay P-TV _____ in order to persuade P-TV to enter into this agreement.

A. more than $5 million

B. nothing

C. at least $10 million

D. more than zero, but less than $5 million

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #130
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

131. Suppose QRS-TV enters into an agreement with P-TV that gives QRS-TV the exclusive right to air a reality show during this time slot. QRS-TV would be willing to pay P-TV _____ in order to persuade P-TV to enter into this agreement.

A. no more than $10 million
B. nothing
C. at least $10 million
D. more than zero, but less than $5 million

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #131
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: Commitment Problems

132. If someone informs a sales clerk that he was given $20 in change when he was only owed $10, one can conclude,

A. the individual is irrational.
B. preferences to be honest altered his motivation and choice.
C. the individual is wealthy.
D. somebody else must have witnessed the error.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #132
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: The Strategic Role of Preferences

133. Relative to a world in which some people are motivated by nonmaterial incentives, if all people were motivated solely by financial incentives

A. transactions in the business world would be the same, but personal interactions would not.
B. economic efficiency would be achieved more often.
C. commitment devices would not be necessary, because there would be no commitment problems.
D. both business transactions and personal interactions would be different.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #133
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: The Strategic Role of Preferences

134. According to the textbook, in the game where player A divides a sum of money and then player B accepts or rejects the division, the most common distribution for A to propose is

A. 99% for A and 1% for B.
B. 80% for A and 20% for B.
C. 50% for A and 50% for B.
D. 70% for A and 30% for B.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 09 #134
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: The Strategic Role of Preferences

135. Only one of the following behaviors is fully consistent with the assumption of narrowly self-interested individuals. Which one?

A. Leaving a tip at an out of town restaurant.

B. Getting the lowest price on a new car.

C. Taking only one newspaper out of the machine.

D. Returning a lost wallet full of cash to the owner.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #135
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: The Strategic Role of Preferences

136. A purely self-interested diner is more likely to tip

A. never.

B. only when dining in a very up-scale restaurant.

C. only when dining in a restaurant at which he often eats.

D. always, to assure good service.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #136
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: The Strategic Role of Preferences

137. The solution to a commitment problem

A. must be a change in the material incentives.

B. is never a change in the psychological incentives.

C. must be a change in the psychological incentives.

D. can be a change in the material incentives, the psychological incentives or both.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #137
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: The Strategic Role of Preferences

138. Emotions like guilt and sympathy

A. are irrelevant to economic decision-making.

B. reduce the likelihood that a transaction will maximize total economic surplus.

C. can solve commitment problems, increasing players' payoffs.

D. can solve commitment problems, but generally reduce players' payoffs.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #138
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: The Strategic Role of Preferences

Suppose there are two small island countries: Avarice, which is populated by people who are completely self-interested and Altruism, which is populated by people who have adopted social norms of generosity and cooperation.

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139. Commitment problems will be

A. largely avoided in Avarice, but prevalent in Altruism.

B. largely avoided in Altruism, but prevalent in Avarice.

C. prevalent on both islands.

D. largely avoided on both islands.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #139
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: The Strategic Role of Preferences

140. If two residents of Avarice play the Prisoner's Dilemma game, they are likely to

A. never reach the Nash Equilibrium

B. reach the Nash Equilibrium more often than would residents of Altruism.

C. reach the Nash Equilibrium less often than would residents of Altruism.

D. play their dominated strategies more often than would residents of Altruism.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #140
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: The Strategic Role of Preferences

141. Suppose residents of each island often play prisoner's dilemma games, always matched with a person from the same island, but not a person who they know or will play with again. If the same number of games is played, you would expect that

A. Avarice players will have higher average payoffs than Altruism players.
B. players on both islands will quickly converge to playing the Nash Equilibrium all of the time.
C. Altruism players will have higher average payoffs than Avarice players.
D. players on both islands will quickly converge to the higher-payoff non Nash Equilibrium result.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 09 #141
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: The Strategic Role of Preferences

142. The use of psychological incentives to solve commitment problems would be least effective in games played

A. repeatedly between strangers.
B. once between family members.
C. repeatedly between family members.
D. once between strangers.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 09 #142
Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.
Section: The Strategic Role of Preferences

143. When parents encourage their children to be honest and punish them when they are not is an example of

A. child abuse.

B. using material incentives to solve commitment problems.

C. old fashioned parenting.

D. using preferences to solve commitment problems.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 09 #143

Learning Objective: 09-06 Discuss commitment problems and explain how altering preferences can solve commitment problems.

Section: The Strategic Role of Preferences

Chapter 09 Testbank Summary

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