

Exam

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) If there are open first-class seats available on a particular flight, some airlines allow customers with coach (discount) tickets to upgrade to first-class tickets during the electronic check-in process. Suppose the regular price of a first-class ticket is \$800, the total price of the upgrade ticket (original price plus the upgrade) is \$400, the marginal cost of serving both types of customers (full-fare and upgrade first-class flyers) is \$100, and the airline maximizes profits. Which of the following statements is true? 1) _____
- A) MR must be the same for both full-fare and upgrade customers.
 - B) $MR = MC$ for the full-fare customers, but the airline is willing to collect any positive amount from the upgrade customers.
 - C) MR for the full-fare customers may be higher or lower than the MR from upgrades.
 - D) MR for the full-fare customers must be higher than the MR from upgrade customers.
- 2) Your local grocery store offers a coupon that reduces the price of milk during the coming week. The regular retail price of milk in the store is \$3.00 per gallon, and the coupon price is \$2.00 per gallon for the next week. If the store maximizes profits and the price elasticity of demand for milk is -2 for coupon users, what is the price elasticity of demand for non-users? 2) _____
- A) -1.5
 - B) -0.67
 - C) -1.0
 - D) We do not have enough information to answer the question.
- 3) The manager of a firm is attempting to practice third degree price discrimination. She has equated the marginal revenue in each of her markets. By doing this her 3) _____
- A) costs are minimized given her level of output.
 - B) profits are maximized.
 - C) revenues are maximized given her level of output.
 - D) all of the above
- 4) When a monopolist engages in perfect price discrimination, 4) _____
- A) the marginal revenue curve lies below the demand curve.
 - B) marginal cost becomes zero.
 - C) the marginal revenue curve becomes horizontal.
 - D) the demand curve and the marginal revenue curve are identical.
- 5) Under perfect price discrimination, consumer surplus 5) _____
- A) is maximized.
 - B) is greater than zero.
 - C) equals zero.
 - D) is less than zero.
- 6) Under perfect price discrimination, marginal profit at each level of output equal 6) _____
- A) $P - AC$.
 - B) $P - MC$.
 - C) 0.
 - D) $P - AR$.

