AGEC 3333 **Practice Final**
Spring Semester, 2009

<u>From Chapter 5: Agricultural Prices</u>

(1) *[1 point]* Changes in agricultural prices are caused by… (*list the four factors*)

1.

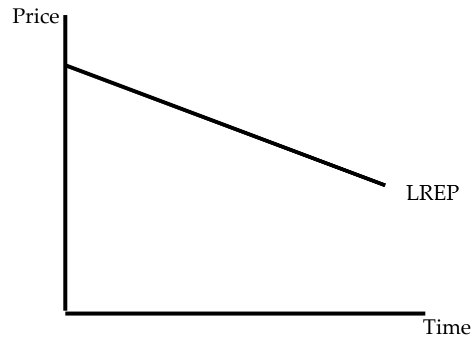
2.

3.

4.

(2) *[1 point]* The right graph shows pork prices trending downward over time. Which of the following would cause pork prices to trend downward over time? Circle all that apply.

Pork Prices



(a) decreasing long-run pork supply

(b) increasing long-run pork demand and decreasing long-run pork supply

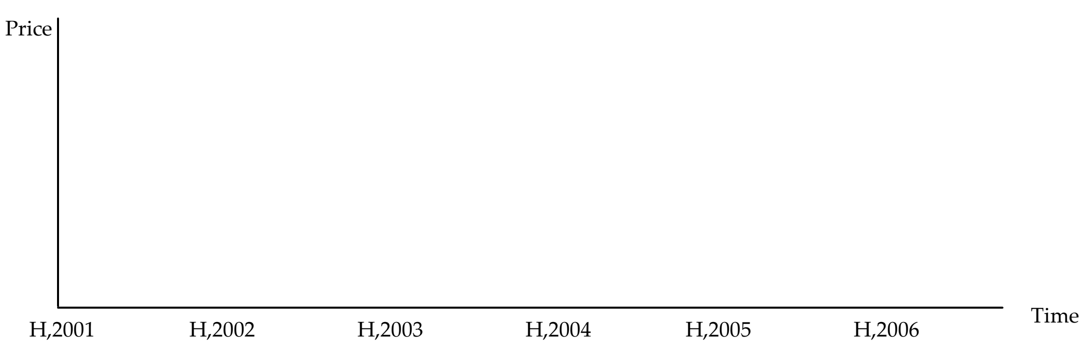
(c) decreasing long-run pork demand and decreasing long-run pork supply(a) increasing long-run pork demand

(d) decreasing long-run pork demand

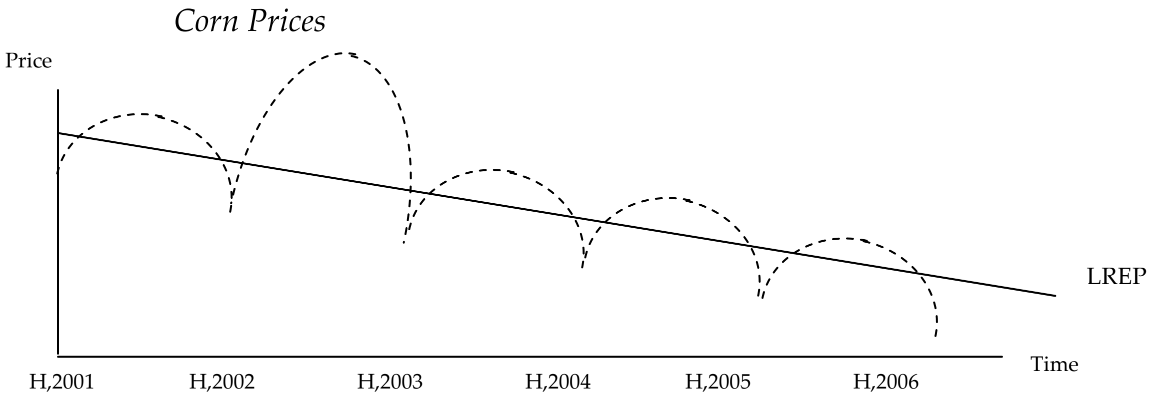
(e) increasing long-run pork supply

(3) *[1 point]* Suppose grain prices are trending upward. Assume that between the years 2001-2002 and 2002-2003 a convenience yield *does not* exist, but for the remaining yields a convenience yield does exist. Illustrate the seasonality of grain prices (H = harvest). Any ambiguity will be deemed incorrect (e.g. if I cannot tell whether a line is suppose to be horizontal or increasing, I will simply count it wrong).

Grain Prices

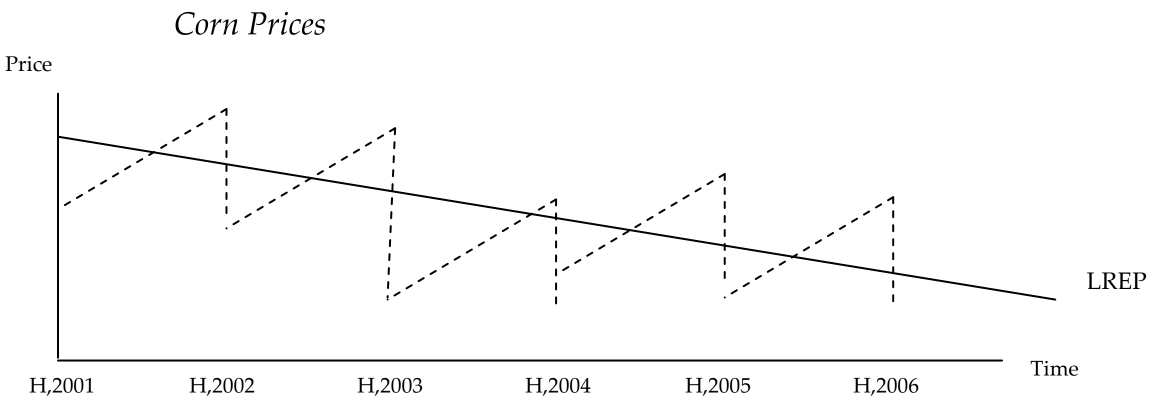


(4) *[1 point]* Observe the graph below, and select check each feature which is present in the corn prices from 2001 to 2006.



	Check if Feature is Present
Rising LREP	______
Constant LREP	______
Falling LREP	______
Seasonality, no convenience yield	______
Seasonality, w/ convenience yield	______
Negative Supply Shock	______
Positive Supply Shock	______
Market Adjustments	______
No Market Adjustments	______

(5) *[1 point]* Observe the graph below, and select check each feature which is present in the corn prices from 2001 to 2006.



	Check if Feature is Present
Rising LREP	______
Constant LREP	______
Falling LREP	______
Seasonality, no convenience yield	______
Seasonality, w/ convenience yield	______
Negative Demand Shock	______
Positive Demand Shock	______
Market Adjustments	______
No Market Adjustments	______

(6) *[1 point]* Consider livestock price cycles. In a contraction phase of the price cycle, producers are _________ the size of their breeding stock in response to ___________ prices. This cause the quantity of animals sold for meat to ______________, thereby causing prices to ____________.

(a) decreasing,
falling,
rise,
fall even faster

(b) increasing,
falling,
rise,
fall even faster

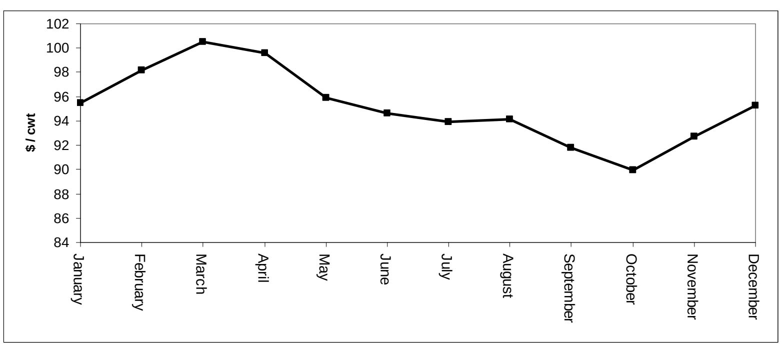
(c) increasing,
rising,
fall,
fall even faster

(d) increasing,
falling,
rise,
increase at a slower pace

(e) decreasing,
falling,
rise,
decrease at a slower pace

(f) decreasing,
falling,
rise,
fall even faster

(7) *[1 point]* Below is a graph illustrate the seasonality of stocker-calf prices. Explain why this seasonality occurs. Suppose that a change in the climate occurs that accentuates the effect of seasonality, making the winters colder and the summers warmer. This would have what effect.



(a) March prices will be higher
October prices will be lower

(b) March prices will be lower
October prices will be lower

(c) March prices will be lower
October prices will be higher

(d) the peak will now be in October
the trough will now be in March

(8) *[1 point]* It takes ____________ years from the time cattle breeding decisions are made until the resulting offspring are ready to be processed into a beef item. Thus, the ____________ lag for beef is ___________ years.

(a) 2, production, 2 (c) 1, market, 1

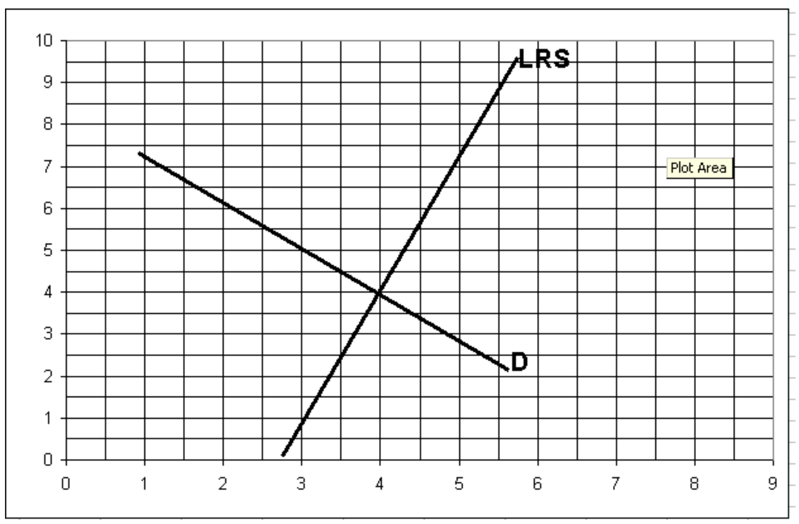
(a) 2, market, 4 (d) 4, production, 4

(9) *[1 point]* What are the two assumptions of the Cobweb Model?

1.

2.

(10-15) *[1 point each]* Consider the supply and demand for pork to the right. Assume the production lag for pork is one year, and assume the two assumptions of the Cobweb Model hold. A market shock occurs in 2005, making the price in 2005 equal to 1. Also, assume the long-run supply and demand curves are stable (not changing over time).



(10) How much pork will be produced in 2006? __________________

(11) How much pork will be produced in 2006? __________________

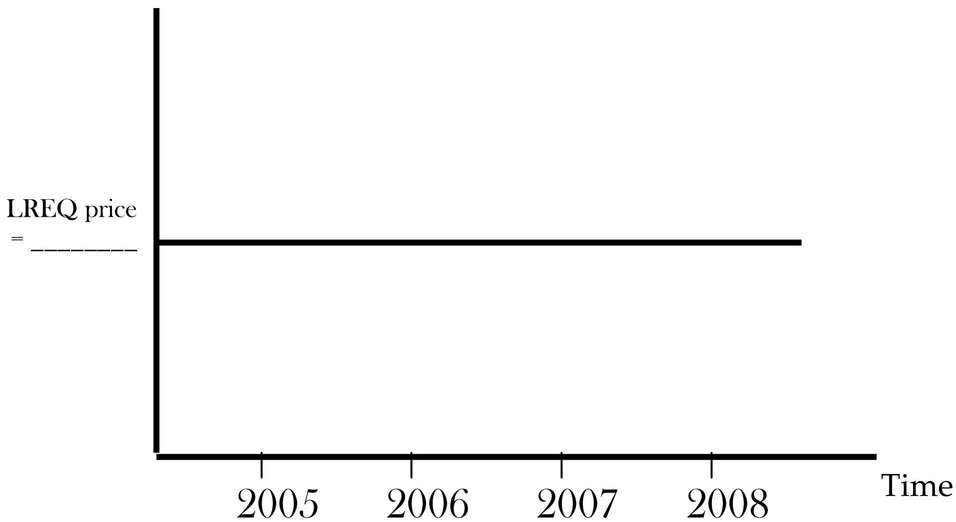
(12) What will be the pork price in 2006? __________________

(13) How much pork will be produced in 2007? __________________

(14) What will be the pork price in 2007? __________________

(15) What will be the pork price in 2008? __________________

(16) *[1 point]* Following from the previous question, illustrate the dynamics of these *market adjustments* in the time-series diagram below. Ignore any seasonality that could exist. Any ambiguity will be deemed incorrect (e.g. if I cannot tell whether a line is suppose to be horizontal or increasing, I will simply count it wrong).



<u>From Chapter 10: Strategic Price Setting</u>

(17) *[1 point]* A market where there are a few sellers of identical goods is referred to as a (an)

(a) monopoly
(b) monopsony
(c) oligopoly
(d) oligopsony
(e) monopolistic competition
(f) perfect competition

(18) *[1 point]* A market where sellers each produce a differentiated product of a general good is referred to as a (an)

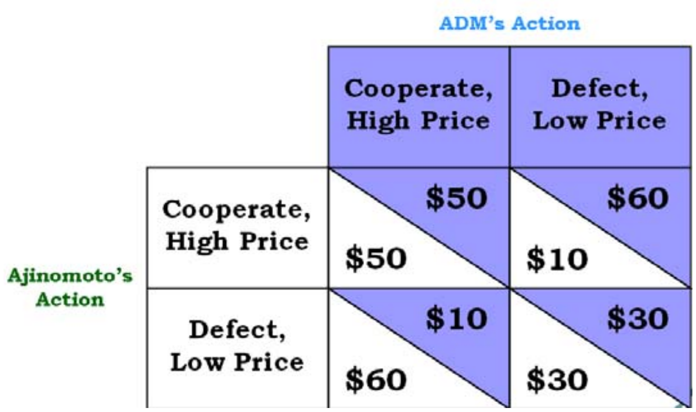
(a) monopoly
(b) monopsony
(c) oligopoly
(d) oligopsony
(e) monopolistic competition
(f) perfect competition

(19) *[1 point]* A strategy that always yields the highest payoff regardless of the opponents' strategies is called a (an)

(a) dominant strategy
(b) Nash strategy
(c) tit-for-tat strategy
(d) vampire bat strategy

(20) *[1 point]* An equilibrium where every player is satisfied with their strategy, given the strategies played by all other players, is referred to as a(an)
(a) dominant strategy equilibrium
(b) Nash Equilibrium
(c) tit-for-tat equilibrium
(d) vampire bat equilibrium

The payoff structure for the One-Shot Price Setting Game is given below.



For the following questions, pretend that you are ADM.

(21) *[1 point]* If you charge a high price and your competitor charges a high price, your profits are ___________.

(22) *[1 point]* If you charge a high price and your competitor charges a low price, your profits are _________.

(23) *[1 point]* _______________ collusion is an unspoken but understood agreement to collude, held together by credible threats of punishment to defectors.

(a) secret (c) brio

(b) tacit (d) illegal

(24) *[1 point]* In laboratory experiments, tacit collusion rarely occurs with more than __________ firms—but it can!

(a) 1 (d) 4

(b) 2 (e) more than 4

(c) 3

For each question, answer whether the sentence describes a situation that facilitates tacit collusion by indicating true or false.

(25) *[1 point]* There are only a few sellers in the market, and sellers continually go out of business to be replaced by new firms.

TRUE / FALSE This description describes a situation that facilitates tacit collusion

(26) *[1 point]* Firms are able to communicate with one another indirectly via price advertisements and interviews in magazines, but cannot outright price-fix.

TRUE / FALSE This description describes a situation that facilitates tacit collusion

(27) *[1 point]* The managers of firms in a market come from markets where tacit collusion is not usually seen.

TRUE / FALSE This description describes a situation that facilitates tacit collusion

(28) *[1 point]* Some firms in a market have higher costs than other firms.

TRUE / FALSE This description describes a situation that facilitates tacit collusion

(29) *[1 point]* When Anheuser-Busch publicly stated, "We don't want to start a bloodbath, but whatever the competition wants to do, we'll do," they were employing a

(a) 3rd degree price discrimination strategy (c) trigger pricing strategy

(b) low-price guarantee strategy (b) dominant strategy

(30) *[1 point]* When Kroger ran newspaper ads in North Carolina advertising its price, but also stating it would meet any lower price of a competitor, they were employing a

(a) 3rd degree price discrimination strategy	(c) trigger pricing strategy
(b) low-price guarantee strategy	(b) dominant strategy

<u>From Pages 24-26 and Homework 9</u>

(31) *[1 point] Fill in the Blanks…* Market ________________ occurs when a buyer and seller make a mutually beneficial transaction, but a ________________________ is harmed. The harm enacted on the third party is referred to as a negative ____________________________.

(32) *[1 point]* Subsidies on the production of a good always ___________________, unless there is a ___________________ in the production of the good.

(a) destroys wealth, negative externality	(c) destroys wealth, positive externality
(b) increases wealth, positive externality	(a) increases wealth, negative externality

(33) *[1 point]* Hog production requires the application of hog manure to cropland at rates higher than the crops can assimilate the manure nutrients. Consequently, some of the manure leaves the field and enters surface waters, polluting those waters. This pollution cost imposed on society is referred to as a ___________ _____________ and can be "corrected" by _______________ hog production.

(a) negative externality, taxing	(c) positive externality, taxing
(b) negative externality, subsidizing	(d) positive externality, subsidizing

(33) *[1 point]* This section discussed how taxes and subsidies can be used to correct for externalities. These taxes and subsidies will not always make society better off though. In a brief sentence or two, describe a situation where government taxes or subsidies intended to correct for an externality make society worse off.