Name _____

## From Chapter 5: Agricultural Prices

(1) *[1 point]* Changes in agricultural prices are caused by… (*fill in the missing factor*)

       1. long-run supply and demand conditions

       2. seasonality

       3. market shocks

       4.

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

Pork Prices

Price

LREP

Time

(a) decreasing long-run pork supply

(d) increasing long-run pork supply.

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

(e) increasing long-run pork demand

(c) increasing long-run pork demand and increasing long-run pork supply
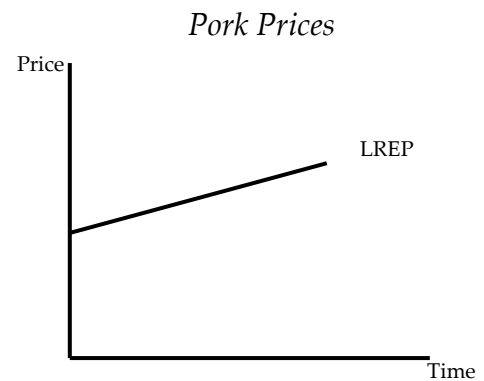
(3) *[1 point]* Suppose that the long-run equilibrium price is constant. Assume that between the years 2001-2002 and 2002-2003 a convenience yield *does* exist, but for the remaining yields a convenience yield does *not* exist. Illustrate the seasonality of grain prices (H = harvest). Any ambiguity will 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).

Use graph on next page
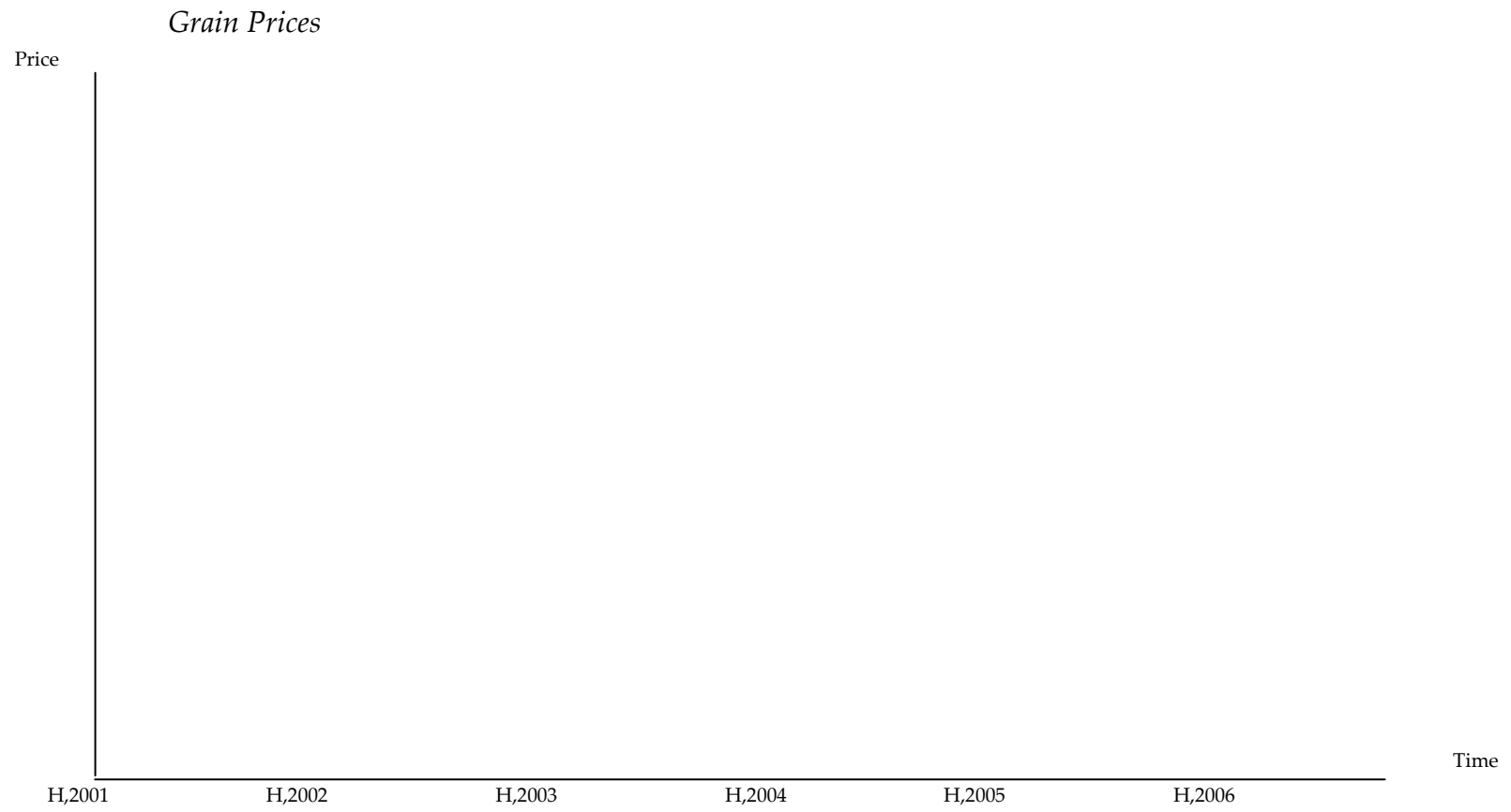
Grain Prices

Price

Time

H,2001   H,2002   H,2003   H,2004   H,2005   H,2006

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

Corn Prices

Price

H,2001   H,2002   H,2003   H,2004   H,2005   H,2006
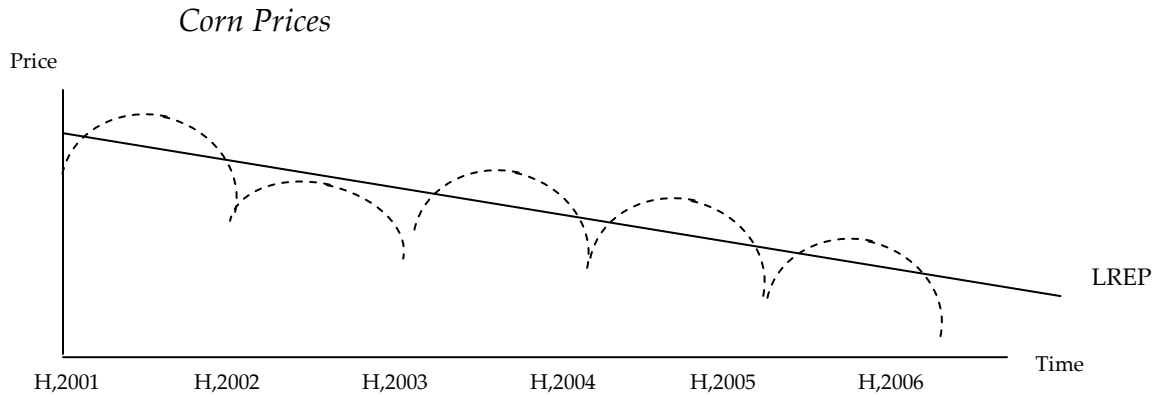
                                                                    Check if Feature is Present

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   _____

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

Corn Prices

Price

LREP

Time

H,2001   H,2002   H,2003   H,2004   H,2005   H,2006
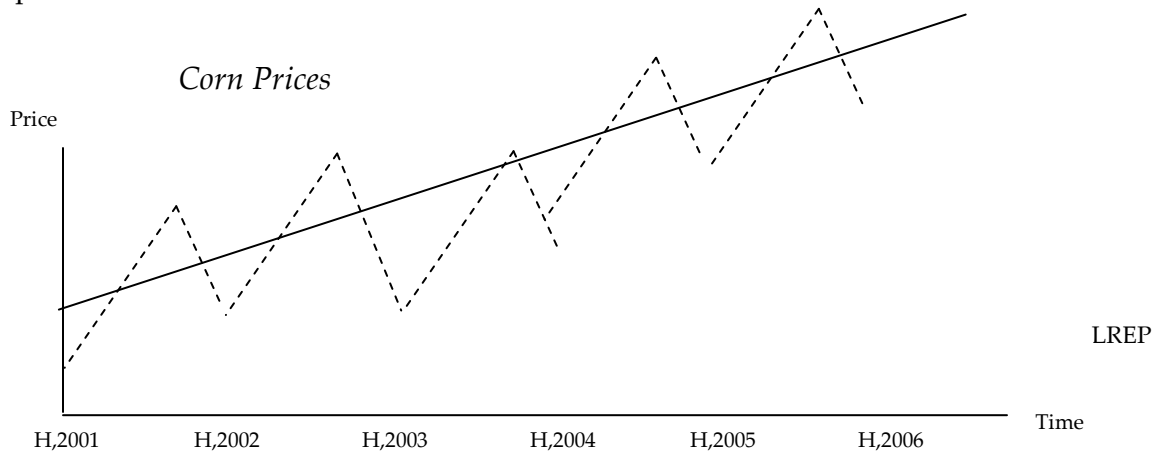
Check if Feature is Present

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   _____

(6) *[1 point]* Consider livestock price cycles. In a contraction phase of the price cycle, producers are _____ the size of their breeding stock, while in an expansion phase produces are _____ the size of their breeding stock. Prices are _____ in a contraction phase and _____ in an expansion phase.

(a) decreasing,
decreasing,
rising,
rising

(d) increasing,
increasing,
falling,
falling

(b) decreasing,
increasing,
rising,
falling

(e) decreasing,
increasing,
falling,
rising

(c) increasing,
decreasing,
rising,
falling

(f) increasing,
decreasing,
falling,
falling

(7) *[1 point]* Below is a graph illustrate the seasonality of stocker-calf prices. Suppose that a change in the climate occurs that accentuates the effect of seasonality, making winter colder and the summer warmer. What effect would this have on stocker calve prices?
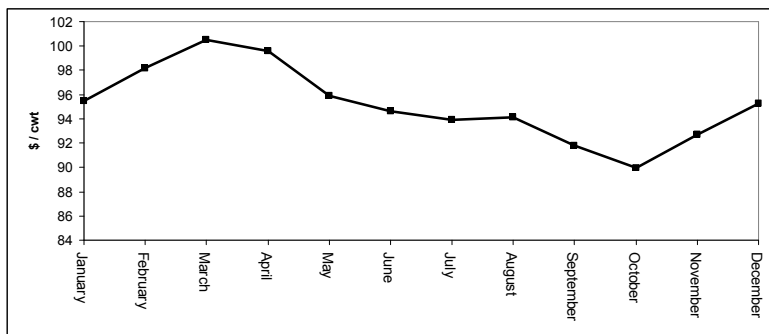

(a) March prices will be lower
October prices will be higher

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

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

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

(8) *[1 point]* It takes _____ year(s) from the time hog breeding decisions are made until the resulting offspring are ready to be harvested. Thus, the _____ lag for hogs is _____ year(s).

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

        (b) 2, market, 4   (d) 1, production, 1

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

    1.

    2.

(10-14) *[1 point each]* Consider the supply and demand for pork to the right. Assume the two assumptions of the Cobweb Model hold. A market shock occurs in 2005, making the price in 2005 equal to 5. Also, assume the long-run supply and demand curves are stable (not changing over time).

(10) What is the long-run equilibrium price? _____

(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) *[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).

LREQ price
= _____

2005   2006   2007   2008   Time
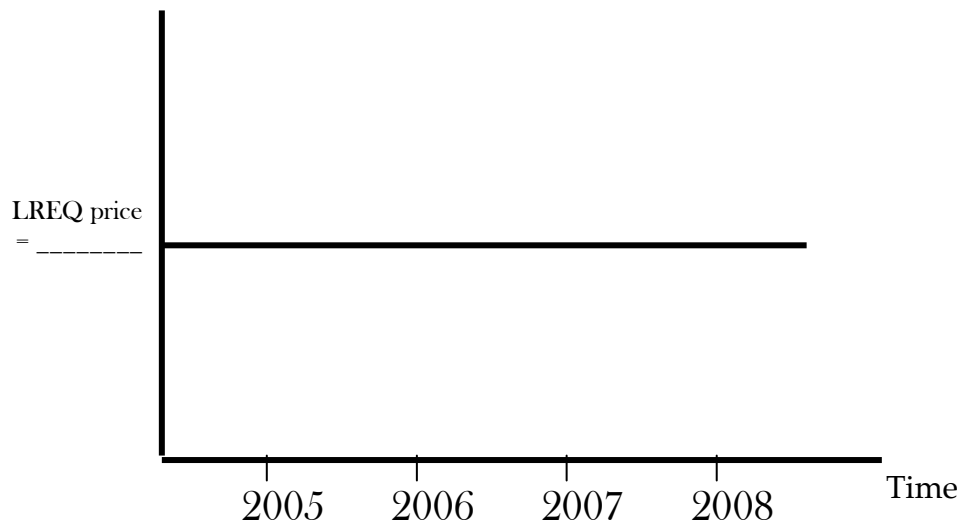
From Chapter 10: Strategic Price Setting

(16) *[1 point]* A market where there are a few sellers of identical goods is referred to as a(n)

(a) oligopsony   (d) oligopoly

(b) monopsony   (d) monopoly

(c) monopolistic competition   (e) perfect competition

(17) *[1 point]* A market where sellers each produce a differentiated product of a general good is referred to as a(n)

(a) oligopsony   (d) oligopoly

(b) monopsony   (d) monopoly

(c) monopolistic competition   (e) perfect competition

(18) *[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

    (a) Vampire Bat Strategy   (c) Nash Strategy

    (b) Tit-For-Tat Strategy   (d) Dominant Strategy

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

    (a) Vampire Bat Strategy   (c) Nash Strategy

    (b) Tit-For-Tat Strategy   (d) Dominant Strategy

The payoff structure for the One-Shot Price Setting Game is given below.
Use this payoff structure to answer questions 20-23.

ADM's Action

		Cooperate, High Price	Defect, Low Price
Ajinomoto's Action	Cooperate, High Price	$50 / $50	$60 / $10
	Defect, Low Price	$10 / $60	$30 / $30

For the following questions, pretend that you are ADM.

(20) *[1 point]* If you charge a high price and your competitor charges a high price, your profits are

_____.

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

_____.

(22) *[1 point]* The dominant strategy equilibrium is for ADM to _____ and for Ajinomoto to _____.

        (a) high price, high price   (c) low price, high price

        (b) high price, low price   (d) low price, low price

(23) *[1 point]* The Nash equilibrium is for ADM to _____ and for Ajinomoto to _____.

        (a) high price, high price   (c) low price, high price

        (b) high price, low price   (d) low price, low price

(24) *[1 point]* _____ collusion is an unspoken but understood agreement to collude, held together by credible threats of punishment to defectors.

        (a) secret   (c) tacit

        (b) brio   (d) illegal

(25) *[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.

(26) *[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

(27) *[1 point]* The nature of the industry makes it difficult for firms to communicate vie magazines, price advertisements, interviews, and the like.

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

(28) *[1 point]* The managers of firms in a market come from markets where tacit collusion is the norm, so they have experience with tacit collusion.

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

(29) *[1 point]* All firms in the market have basically the same costs.

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

(30) *[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

(31) *[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

From Pages 30-34 and Homework 9

(32) *[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 _____.

(33) *[1 point]* Subsidies on the production of a good always _____, unless there is a
_____ in the production of the good.

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

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

(34) *[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) positive externality,   (c) negative externality,
      taxing   taxing

      (b) positive externality,   (d) negative externality,
      subsidizing   subsidizing

You are assigned a grade for your performance in the grain simulation game. Each of you worked on a team, and your grade was likely influenced by the diligence of your teammate. Perhaps you received a low grade, and you believe this was partly the result of having a teammate who rarely came to class, didn't understand the game, and didn't try to perform well. Below, if you had a bad teammate and wish me to consider this in rendering your final grade, please provide comments below. Note that I have records of everyone's attendance, and will check your comments with these records to make sure you are being fair.