120 points. Please write answers in ink. Use pencil for drawing graphs. Allocate your time efficiently. Good Luck and have a Merry Christmas.


   a. What are the three conditions that must exist for a firm to engage in price discrimination? Are these conditions satisfied for professional sports franchises and airlines?
   b. Do professional sports franchises and airlines engage in price discrimination? Provide some examples.
   c. Now consider the information provided in the articles. Is it price discrimination to require that big people buy two tickets to fly on an airline? Is it price discrimination to charge fans higher prices to attend “good games?” Explain your reasoning.

2. The Washington State Utilities and Transportation Commission periodically launches crackdowns on unlicensed movers of household goods.

   a. The commission’s enforcement chief said the crackdowns occur because of consumer complaints about damaged goods and price manipulation and because authorized carriers are complaining about growing competition from unlicensed movers. Which set of complaints do you suppose put the most pressure on the commission? How many consumers do you think know about the existence of the State’s Utilities and Transportation Commission? How many licensed movers probably know about the Commission?
   b. State officials have said that the legislature set strict requirements for entry into the moving industry in the 1930s because legislators were concerned that “unregulated, cutthroat competition would lead to a deterioration of service, and safety problems.” Does competition usually lead to a deterioration of service?
   c. The transportation director for the state commission is on record as believing that there are currently “more licensed movers than is necessary—as far as service rather than rates are concerned.” What is the relationship between high rates and sufficient service?
   d. What dos the fact that there are dozens of unlicensed movers operating in the state indicate about the transportation director’s claim?

3. Consider the OPEC (Organization of Petroleum Exporting Countries) cartel.

   a. Explain the motivation of oil producers to form a (supplier) cartel. Do the producers who form a cartel anticipate greater benefits from the agreement?
   b. Explain the conditions that must be met if suppliers are to be successful in realizing the benefits from forming a cartel.
   c. With few exceptions, the benefits that member suppliers receive from cartel agreements decline over time. Explain why.
   d. Has OPEC been able overcome the problems that beset most cartels? Explain.
4. A major step toward mastering the economic way of thinking is learning to reason in terms of supply and demand. Your answers are less important than the reasoning with which you arrive at those answers. You should probably begin each case by sketching a demand and supply graph. Then ask yourself whether the event described would affect the supply curve or the demand curve, in which direction the curve would move, and what effect that would have on the price and the quantity exchanged. Don't be content merely to conclude that the price will rise or fall. Predict the magnitude of the change in the price and quantity exchanged in both the short- and long-run.

a. The Bush Administration recently imposed tariffs (import taxes) on Canadian softwood lumber imports to the United States. Softwood lumber is made into 2x4s and plywood, which is used to build new homes.

1. How will the tariffs affect the market for new homes?
2. How will the tariffs affect the market for softwood lumber produced in the United States?
3. How will the tariffs affect the market for steel 2x4s?
4. How will the tariffs affect the market for pulpwood? Pulpwood is produced from trees to make paper. Assume that land that is suitable for growing trees that supply softwood lumber can be used to grow trees that supply pulpwood.

5. The figure below illustrates the demand curve and marginal cost curve for a price searcher.

a. Indicate the firm’s profit maximizing price and quantity.
b. Indicate the firm’s producer surplus (seller’s gain), the buyers’ consumer surplus (buyers’ gains), and the deadweight loss.
c. Explain how this price searcher might be able to increase its producer surplus, increase consumers’ surplus, and reduce the deadweight loss all at the same time.
Marginal Cost

Demand

Quantity/week

$/Q