Microeconomics, Module 14: “Collusion, cartels, and regulation” (Chapter 11)

(Illustrative test questions to guide candidates when reviewing the text material.)

(The attached PDF file has better formatting.)

Question 14.1: Cartels

The Prisoner’s Dilemma shows that a cartel is unlikely to succeed unless

A. There is an enforcement mechanism.
B. Each firm has a dominant strategy.
C. The market is free from government regulation.
D. Entry into and exit from the industry are costless.
E. Firms behave myopically.

Answer 14.1: A

Question 14.2: Prisoner’s Dilemma

If each party in a Prisoner’s Dilemma game acts in its self-interest, the outcome

A. Must be efficient in accordance with the Invisible Hand Theorem
B. May fail to be Pareto optimal.
C. Is the same as if the prisoners had formed a cartel.
D. Can not be predicted.
E. Creates a wealth transfer from one prisoner to another.

Answer 14.2: B