Exam 2:
5 questions, answer 4
bring a blue book and a calculator – no cell phone calculators
exam lasts the class period
covers chapters 4-7 (only part of chapter 7)

Exam 2 Topics

Chapter 4: Product Differentiation
• What's the relevance of product differentiation
• Types of models
• Representative consumer Models
  ○ Monopolistic Competition, Imperfect Substitutes, Love of Variety
• Address Models
  ○ Two types: horizontal and vertical
  ○ Hotelling model of horizontal product differentiation
    ▪ Applications of the model
    ▪ Price equilibrium
    ▪ Locational equilibrium (as an extensive form game)
    ▪ Issue with locational equilibrium
    ▪ Types of equilibrium: competitive, touching, local monopoly
    ▪ Principle of minimal differentiation
    ▪ Principle of maximal differentiation
  ○ Salop circular model
    ▪ Why a circle instead of a line?
    ▪ Price equilibrium
    ▪ Monopoly model
    ▪ Oligopoly model
  ○ Comparison of horizontal product differentiation models
  ○ Vertical product differentiation
    ▪ How is this different from horizontal differentiation?

Chapter 6: Collusion
• How does collusion fit into the S-C-P paradigm?
• Non-cooperative (tacit) collusion
  ○ Why would firms tacitly collude (dynamics)
  ○ Calculate the present value of the profit stream (discounted sum of profits)
  ○ Tacit collusion as a 2x2 matrix game
  ○ Trigger strategy
  ○ Returns to tacit collusion - how to determine the deviation
  ○ Pricing practices that facilitate non-cooperative collusion (handout)
  ○ Factors influencing the effectiveness of a trigger strategy (handout)
• Cooperative collusion
  ○ Examples in the book
  ○ Factors influencing cartel formation (handout)
Chapter 7: Strategic Behavior

• What is strategic behavior?
• Two requirements for successful strategic behavior
• Durable goods monopolist
  • How can the durable goods monopolist behave strategically?
  • Coase conjecture and the time inconsistency problem of the durable goods monopolist
  • Time consistent policies
  • Secondhand markets