

ECO 610

Fall 2016

Problem Set #6 KEY (6 pts. total)

1. **(4 pts. total, 1 pt. for each part)** Based on the diagram of the characteristics of different types of markets illustrated in class, explain what type of market structure each of the following markets is:
- a) Fast-food restaurants in Lexington

Many sellers, each one small relative to the market. Differentiated product. Insignificant barriers to entry and exit. Monopolistic competition.

- b) Automobiles

Small number of producers, each with significant market share. Differentiated product. Significant barriers to entry, primarily due to economies of scale. Differentiated oligopoly.

- c) Strawberry farming

Many producers, each one small relative to the market. Homogeneous product. Insignificant barriers to entry and exit. Perfect Competition.

- d) UK basketball

Only producer of a product for which there are no close substitutes (at least for the true-blue fan)!! Monopoly.

2. **(2 pts.)** Knowing what you do about the market for pizzas in West Liberty, KY, would you expect producers to be able to earn persistent (long-run) above-normal returns? Briefly explain why or why not.

The threat of entry, in particular hit-and-run entry by a vendor selling pizzas purchased from Papa John's Pizza in Morehead, KY, keeps the two pizza restaurants in West Liberty from being able to jack up their prices and make persistent economic profits.