Unit 5 Quiz E

Randomly select 3 questions to ask members of the group requesting the next set of assignments. If they get all questions correct, give them the entire stack of quizzes and assignments so that they can quiz the next group. If they get any question wrong, send them back to their seats to review and then try again in 10 minutes or more.

1. How does advertising affect price elasticity of demand?

   Answer: As advertising expenditure increases, demand becomes more inelastic, making it harder for consumers to escape the market when prices increase.

2. What rule can we use to find the optimal quantity that maximizes profit?

   Answer: Set marginal revenue equal to marginal cost (MR = MC) with respect to quantity.

3. What rule can we use to find the optimal advertising expenditure that maximizes profit?

   Answer: Set marginal revenue equal to marginal cost (MR = MC) with respect to advertising.

4. Name two examples of industries where licensing requirements create barriers to entry.

   Answer: Interior design and bars/restaurants (liquor licenses).

5. What is the relationship between advertising-to-sales ratio and profit rates in Comanor and Wilson (1967)?

   Answer: Industries with higher advertising-to-sales ratios tend to have higher profit rates.

6. What are the two major factors examined in the Comanor and Wilson 1967 study that influence market power and profit rates?

   Answer: Advertising intensity and capital requirements (barriers to entry).