

AEC 305 Exam III
Fall 2008 – November 21, 2008

Name _____

1. Match the following marketing terms with the statements on the left (3 points each for a total of 15 points)

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|------------------------|--|
| ___ Concentration | A. average per unit costs fall as output increases |
| ___ Market Power | B. factors that limit the flow of new firms/producers into a profitable industry |
| ___ Structural Change | C. long-term adjustments in an industry's key characteristics such as the number/size of firms, ease of entry/exit, product mix/characteristics |
| ___ Economies of Scale | D. a marketing term denoting the ability of a seller to raise its price above competitive levels and a buyer to lower its price below competitive levels |
| ___ Entry Barriers | E. a measure of the relative size of an industry's largest firms |

2. Fill in the blank with the words in bold (underlined in the firm column) to best describe the characteristic for each market structure. Note the upper left component is filled in for you as an example (1 point each for a total of 15 points)

Characteristics	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
Number of Buyers/Sellers <u>(very large number, many, one, or few?)</u>	Very large number			
Product Differentiation <u>(Homogeneous, Unique, Slightly Differentiated, or Differentiated?)</u>				
Ease of Entry/Exit <u>(Difficult, Easy, Relatively Easy, or Closed?)</u>				
Influence on Price <u>(Price Taker or Price Maker?)</u>				

3. What is a concentration ratio? If each of the 10 firms in an industry has exactly the same share of total market sales, what would be the value of the four-firm concentration ratio (CR₄) for this industry? (5 points)

4. Identify and briefly describe two market structure models that we discussed in class that might depict how an agribusiness firm in a market with few sellers whose actions affect each other might establish price. (6 points)

5. In class we discussed that agricultural producers are increasingly selling their commodities to firms that possess imperfect market structure characteristics, while consumers are generally buying food (groceries and meals) from firms that possess imperfect market structure characteristics – both of which result in pricing and operational inefficiencies. (4 points each for a total of 12 points)

a. Briefly describe what is meant by the terms pricing and operational efficiency

b. Besides concerns over prices, identify another concern that food consumers may have in buying their products in an imperfect market structure and another concern that agricultural producers may have in selling their products/commodities to firms that are part of an imperfect market structure.

c. As a CEO for one of these imperfectly competitive firms provide two reasons that this type of market structure may be beneficial to either agricultural producers or food consumers.

6. What is meant by the term price discovery? Contrast with price determination. (4 points)

7. Which price discovery system is increasing among agricultural buyers and sellers? List two concerns AND two benefits for producers (sellers) evolving from this price discovery system. List two benefits of this price discovery system for agribusiness buyers and two benefits for food consumers. (10 points)

Multiple Choice

8. _____ Which one of the following statements is incorrect about an agribusiness firm that is the only seller of farm inputs in a rural area with no current competitors? (4 points)
- a. the firm faces the entire market demand curve that has a negative slope (i.e., downward sloping)
 - b. the firm will generally charge higher prices and provide lower quantities than other agribusiness firms that are selling in a more competitive market environment
 - c. the firm may consider selling at a price that did not maximize profits to reduce the threat of entry
 - d. the firm will consider adopting various forms of non-price competition
9. _____ Which one of the following statements is correct? (4 points)
- a. A cereal company buying a bread company is an example of vertical integration
 - b. The majority of corn and soybeans are sold primarily through production contracts
 - c. The selection of a price discovery system is influenced by the transaction costs for both buyers and sellers participating in the market, along with the ability to provide producers and consumers correct price signals and equitable returns to market participants.
 - d. Buyers and sellers must be physically present to determine prices for all price discovery systems to work effectively and efficiently.
10. Using the orange industry as an example, distinguish between brand advertising and generic/commodity promotion advertising. Discuss the desired impacts on primary and derived demand. Describe how advertising will impact retail prices? Comment on whether advertising is or is not a benefit to consumers. (10 points)

11. Read the following statements. Indicate if the statement is True or False. If the statement is False, correct the statement to make it True. (Answer all 6 questions, but only your best 5 will be graded --3 points each)

- a. True or False? The majority of poultry and hogs marketed in the United States are sold through a contractual arrangement.**

- b. True or False? Firms competing in a monopolistic competition industry face a steeper demand curve than firms in an oligopoly market structure**

- c. True or False? A firm participating in a perfect competition framework will attempt to increase advertising expenditures to increase price, demand and sales.**

- d. True or False? A high concentration ratio indicates a large degree of market concentration and raises concerns over firms abusing their market power**

- e. True or False? A marketing contract is a formal agreement among buyers and sellers which specifies required production practices often agreed to before production is initiated and where the contractor, not the farmer retains ownership throughout the length of the contract.**

- f. True or False? A livestock auction that consists primarily of three buyers whose actions are interdependent is a good example of an oligopoly.**