

MBA-II SEM-IV BA Spl. Economics of Network Industries MCQs

Sr. No.	Questions	Option1	Option2	Option3	Option4	Ans
1	An externality is defined as	A) an additional cost imposed by the government on producers.	B) a cost or benefit caused by a producer that is not financially incurred or received by that producer.	C) an additional gain received by consumers from decisions made by the government.	D) the additional amount consumers have to pay to consume an additional amount of a good or service.	B
2	Which of the following is NOT an issue involving network externalities?	A) the market may be too small	B) the market may be too large	C) problem of monopoly	D) None of the above	B
3	Which of the following is a general policy issue surrounding the issue of network externalities?	A) Issues of private property rights and intellectual property issues	B) Issues of monopoly regulation	C) None of the Above	D) Both A & B	D
4	Which one of the following goods is nonexcludable?	A) the Sunshine	B) a Cab	C) an art gallery	D) a toll bridge	A
5	A common resource is	A) nonrival and nonexcludable	B) nonrival and excludable	C) rival and nonexcludable.	D) regulated and excludable	C
6	Cable television and air-traffic control are similar to each other because both of them are	A) nonexcludable.	B) nonrival.	C) excludable.	D) rival.	B
7	A natural monopoly is	A) nonrival and excludable	B) rival and nonexcludable.	C) nonrival and nonexcludable.	D) regulated and excludable	A
8	A good that is rival and nonexcludable is a	A) common resource.	B) private good.	C) public good.	D) government good	A
9	Supply-side economies of scale arise:	A) when a buyer's willingness to pay for a product increases.	B) when the demand for a firm's product keeps fluctuating.	C) when the number of buyers for a firm's product decreases.	D) when a firm manufactures products in high volumes.	D
10	Public goods are provided by government because	A) governments are more efficient than private firms at producing public goods.	B) people value national defence very highly.	C) private firms will make an economic profit.	D) free-rider problems result in underproduction by private markets.	D

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11	Network effects also known as _____	A) Network goods	B) Network Management	C) Network Externalities	D) Network Diagnosis	C
12	Network industries does not include _____	A) Telephone	B) Airlines	C) Banking	D) Treasury Bonds	D
13	The second theorem of _____ states that any Pareto optimum can be supported as a competitive equilibrium for some initial set of endowments.	A) Public Choice	B) Social Interest	C) Welfare Economics	D) Keynesian Economics	C
14	Economies of scale result from _____	A) large fixed costs and/or weakly increasing variable costs	B) low fixed costs and/or strongly decreasing variable costs	C) large fixed costs and decreasing variable costs	D) low fixed costs and weakly increasing variable costs	A
15	_____ network effects arise when there are "at least two different customer groups that are interdependent, and the utility of at least one group grows as the other group(s) grow".	A) Direct	B) Indirect (or cross-group)	C) Two-sided	D) Local	B
16	Network scales faster as it _____	A) lowers its customer acquisition cost.	B) higher its customer acquisition cost.	C) cost of acquisition remains constant.		A
17	Which of the following started as a De facto standard?	A) ISO	B) HTTP	C) IEEE	D) ANSI	B
18	Brands are said to be _____ if a newer model is compatible with an older model, but not necessarily the other way around.	A) two-way compatible	B) strongly compatible	C) downward compatible	D) forward compatible	C
19	Which of the following statements about a monopoly is <b>FALSE</b> ?	A) A monopoly is the only supplier of the good.	B) Monopolies have no barriers to entry or exit.	C) The good produced by a monopoly has no close substitutes.	D) None of the above; that is, all of the above answers are true statements about a monopoly.	B

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20	Which of the following is <b>true</b> of a natural monopoly?	A) The firm can supply the entire market at a lower cost than could two or more firms.	B) Its average total cost curve slopes upward as it intersects the demand curve.	C) The firm is not protected by any barrier to entry.	D) Economies of scale exist to only a very low level of output.	<b>A</b>
21	When consumers are not identical, a market failure may occur when _____	A) a monopoly producer provides compatibility.	B) a monopoly producer does not provide compatibility and compatibility is not socially preferred.	C) a monopoly provides compatibility and compatibility is socially preferred.	D) a monopoly producer does not provide compatibility but compatibility is socially preferred to incompatibility.	<b>D</b>
22	When users' preferences exhibit network externalities, and if computer brands are differentiated and incompatible, then _____	A) prices and profit levels decline with an increase in consumers' preference toward the network size.	B) prices and profit levels increase with an increase in consumers' preference towards the network size.	C) price increases and profit level decreases with an increase in consumers' preference toward the network size.	D) price declines while profit level increase with an increase in consumers' preference towards the network size.	<b>A</b>
23	When users' preferences exhibit network externalities, _____	A) computer producers charge higher prices and earn higher profits when they make their machines compatible;	B) consumers are worse off when firms sell compatible machines.	C) consumers are well off when firms sell compatible machines	D) Both A & B	<b>D</b>
24	In Duopoly, Social welfare is maximized when _____	A) there is one-way compatibility.	B) both machines are compatible.	C) both machines are incompatible to each other.	D) none of the above.	<b>B</b>
25	The firm with the higher market share under incompatibility earns _____ under incompatibility whereas the firm with the smaller market share under incompatibility earns _____ under compatibility.	A) a higher profit, a lower	B) a lower profit, a lower	C) a higher profit, a high	B) a lower profit, a high	<b>C</b>

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26	Production of software exhibits sharp _____.	A) economies of scope	B) economic welfare	C) economic sustainabil	D) economies of scale	D
27	The price charged by a monopoly hardware firm _____.	A) increases with consumers' love for software variety parameter, $\alpha$ ; consumers' income, $\omega$ ; and the number of consumers buying this machine, $\eta$	B) decrease with consumers' love for software variety parameter, $\alpha$ ; consumers' income, $\omega$ ; and the number of consumers buying this machine, $\eta$	C) increases with consumers' love for software variety parameter, $\alpha$ ; consumers' income, $\omega$ ; and decrease in the number of consumers buying this machine, $\eta$	D) increases with consumers' love for software variety parameter, $\alpha$ ; decrease in consumers' income, $\omega$ ; and the number of consumers buying this machine, $\eta$	A
28	An increase in consumers' preference for variety of software _____.	A) increases both hardware prices and profits.	B) decreases both hardware prices and profits.	C) increase hardware prices and decrease profits.	D) decrease hardware prices and increase profits.	B
29	Equilibrium duopoly hardware prices and profits are higher when the machines are compatible than when they are incompatible.	A) TRUE	B) FALSE			A
30	When there are two software industries, each producing brand-specific software, an increase in the degree of compatibility of the A-machine with the software written for the B-machine,	A) will reduce the variety of software specifically written for the A machine	B) will increase the variety of software specifically written for the A machine	C) will reduce the variety of software specifically written for the B machine	D) none of the above.	A
31	Support-oriented consumers would prefer buying software over pirating software _____.	A) if $p > \sigma q$ ; i.e., if the price of the software package exceeds the value of service provided by the software firm to its legal users.	B) if software is not copy protected.	C) if service provided by software firm is not available.	D) if $p \leq \sigma q$ ; i.e., if the price of the software package does not exceed the value of service provided by the software firm to its legal users.	D

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32	_____ occurs when a new technology replaces an old technology, but the old technology yields a higher utility (or profit) to both users than the new technology.	A) Excess momentum	B) Excess inertia	C) Excess immobility	D) Excess retreat	A
33	The duration of each technology, $\Delta$ , _____	A) decreases with the population size of each generation, $\eta$ , and decreases with the technology-growth parameter, $\lambda$ .	B) increases with the population size of each generation, $\eta$ , and the technology-growth parameter, $\lambda$ .	C) increases with the population size of each generation, $\eta$ , and decreases with the technology-growth parameter, $\lambda$ .	D) decreases with the population size of each generation, $\eta$ , and increases with the technology-growth parameter, $\lambda$ .	C
34	When consumer preferences exhibit international network externalities, both countries are better off when both countries mutually recognize foreign standards than when both countries do not recognize foreign standards.	A) TRUE	B) FALSE			A
35	Telecommunication services in general and telephony, exhibits perhaps _____.	A) least degree of network externalities	B) highest degree of network externalities.	C) moderate degree of network externalities	D) no network externalities	B
36	Entry into the telecommunication industry _____ the utility of the already connected consumers whereas the utility of newly connected consumers _____.	A) increases, also increases	B) decreases, increases	C) increases, remains unchanged	D) decreases, remains unchanged	C
37	Suppose that all technologies have the same duration. Then the frequency of technology revolutions (or new-technology adoption), denoted by $f$ is	A) $f \stackrel{\text{def}}{=} 1/\Delta(g+\lambda)$ .	B) $f \stackrel{\text{def}}{=} \Delta/\lambda$	C) $f \stackrel{\text{def}}{=} \lambda/\Delta$ .	D) $f \stackrel{\text{def}}{=} 1/\Delta$ .	D

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38	The duration of each technology, $\Delta$ , _____ with the population size of each generation, $\eta$ , and _____ with the technology-growth parameter, $\lambda$ .	A) increases, decreases	B) increases, increases	C) decreases, increases	D) decreases, decreases	A
39	The _____ at a price (connection fee) $p_0$ is the minimal number of customers needed to ensure that at least this number of consumers will benefit from subscribing to the service at the fee $p_0$ .	A) critical weight	B) critical mass	C) critical volume	D) weight	B
40	In order to connect each consumer to the network of services, the monopoly has to spend $\mu$ units of money, where _____.	A) $\mu > \eta$	B) $\mu < \eta$	C) $\mu = \eta$	D) $\mu \geq \eta$	B
41	Suppose that the incumbent and the entrant in the long-distance phone call market compete in prices (rates). Then, _____.	A) under the ECPR, only entrants with unit cost $\mu^E > \mu^I$ will enter the long-distance phone-call industry.	B) under the ECPR, only entrants with unit cost $\mu^E < \mu^I$ will enter the long-distance phone-call industry.	C) under the ECPR, only entrants with unit cost $\mu^E \leq \mu^I$ will enter the long-distance phone-call industry.	D) under the ECPR, only entrants with unit cost $\mu^E = \mu^I$ will enter the long-distance phone-call industry.	C
42	The _____ for assigning scarce frequency band is inefficient as there is a strictly positive probability that frequency will be assigned to the less efficient firm.	A) lottery system	B) auction process	C) first-come-first-serve	D) administrative procedure	A
43	In _____ the government fails to extract all the rents associated with giving away the frequency band to the private sector.	A) lottery system	B) auction	C) first-come-first-serve	D) administrative procedure	B

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44	The _____ revolutionized the entire information and entertaining media industries in that it allows cable companies to provide Internet services and phone companies to provide cable and Internet services.	A) Telecommunication Act	B) Telecommunication Act	C) Telecommunication Act	D) Telecommunication Act	A
45	In order to ensure that foreclosures will not take place, regulators should allow all service providers to sell the entire variety of telecommunication, broadcasting, and Internet services.	A) TRUE	B) FALSE			A
46	Information is _____ reproduced if each agent (the provider and each consumer) makes one copy for the benefit of another consumer.	A) Horizontally	B) Vertically	C) Mixed	D) None of the above	B
47	Section 170 of Copyright Act states: "the fair use of copyrighted work ... for purposes such as criticism, comment, newsreporting, teaching (including multiple copies for classroom use), scholarship, or research, is an infringement of copyright."	A) TRUE	B) FALSE			B
48	Under either vertical or horizontal information reproduction, total surplus enjoyed by the $n$ consumers is _____.	A) higher when information is printed compared with digital information.	B) higher when information is digital compared with printed information.	C) the same when information is digital or printed.	D) None of the above	B
49	The amount of uncaptured consumer surplus when information is digital exceeds the amount of uncaptured surplus when information is printed	A) TRUE	B) FALSE			A

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50	An increase in journal photocopying _____ library's value and hence funding, which in turn allows journal publishers to increase subscription fees.	A) decreases	B) increases	C) doesn't impact	D) None of the above	<b>B</b>
51	Selling to libraries yields a higher profit to the publisher than selling directly to readers when:	A) books are not costly to produce.	B) there are more libraries relative to the number of readers.	C) readers do not place a high value on owning the book.	D) None of the above	<b>C</b>
52	The profit level of a bank declines when it makes its ATMs available for the customers of a competing bank.	A) TRUE	B) FALSE			<b>A</b>