Teacher Answer Key

Case Study

1. Cutting seats keeps planes full and fares high. A price war would just mean everyone earns less on the same flights.

2. Game theory says each airline does better if they all hold back capacity than if one breaks ranks and starts a price war nobody wins.

Multiple Choice

1. A

2. B

3. D

Matching

1-B, 2-D, 3-E, 4-C, 5-A

Fill-in-the-Blank

1) large, 2) game, 3) capacity

Short Answer (Sample Responses)

Q1: Game theory suggests that firms in an oligopoly act in their own self-interest, which may involve avoiding price wars to keep profits high. If firms continually lower prices, they all lose out in the long term.

Q2: Collusion can lead to higher prices and less innovation, but firms benefit from more stable profits. Consumers, however, suffer from fewer choices and higher costs.

Q3: Non-price competition can lead to greater product differentiation, improving consumer choices. However, it often results in higher costs for firms, which may be passed on to consumers through higher prices.