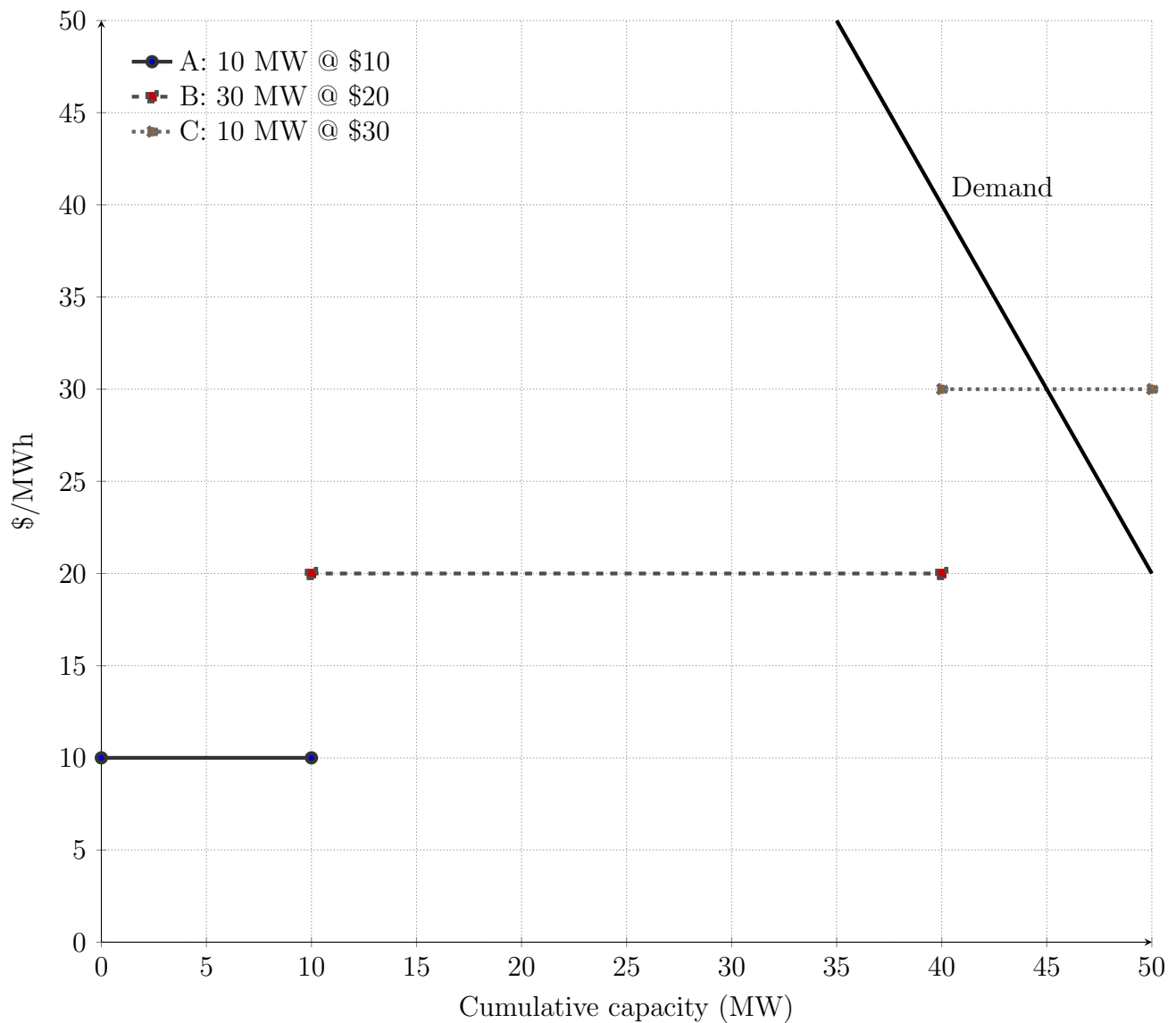


Econ 3391 – Quiz 1

PRINT NAME: _____

Setup

Consider an electricity market with three plants: A has 10 MW capacity and a marginal cost of \$10/MWh, B has 30 MW capacity at marginal \$20/MWh, and C has 10 MW capacity at marginal cost \$30/MWh. Below is a plot of aggregate capacity arranged by marginal cost.



Questions (1 point each)

1. If every plant bids its marginal cost, what will the price paid to plant B be?
 - A. 0
 - B. 10
 - C. 20
 - D. 30
 - E. 40
2. If plant B **decreases** its bid by \$5, its profit will
 - A. Go up
 - B. Stay the same
 - C. Go down
 - D. Not enough information to tell
3. If plant C **decreases** its bid by \$5, its profit will
 - A. Go up
 - B. Stay the same
 - C. Go down
 - D. Not enough information to tell
4. If plant A **increases** its bid by \$5, its profits will
 - A. Go up
 - B. Stay the same
 - C. Go down
 - D. Not enough information to tell
5. If plant C **increases** its bid by \$5, its profits will
 - A. Go up
 - B. Stay the same
 - C. Go down
 - D. Not enough information to tell
6. Consider what happens if firms own multiple plants. In which situation will C increase prices the most?
 - A. When C is independent
 - B. When C and A are owned by the same firm
 - C. When C and B are owned by the same firm
 - D. It's incentives to raise prices is the same in each scenario.