

key

Vers. 1

**Economics 631
Third Exam**

Dr. Babcock

Fall 2018

1. Which of the following concerning international ocean transport is correct?
 - ☒ a. tramp ships have no fixed routes, no published schedules, and no published prices.
 - b. liner ships travel fixed routes but have no published schedules or published prices.
 - c. compared to container liners, break bulk liners have lower loading/unloading time and more revenue due to better ship utilization.
 - d. LASH liners have the greatest loading/unloading time of any of the liner group of ocean carriers.
 - e. RORO liners are usually hired by shippers on a voyage basis or a time basis.

2. Assume the market for international ocean shipping is in equilibrium. Now assume the world economy goes into an economic expansion that increases international trade. Which of the following is correct?
 - a. the demand for liners will increase causing the price of liner service to rise.
 - b. the price of liner service will increase by a greater amount than tramp ship price, since the supply of liner service is more price inelastic in the short run.
 - c. the demand for liner service will decrease while the demand for tramp ship service increases.
 - d. the supply of liners and tramp ships increases causing the price of ocean shipping to decrease.
 - ☒ e. the price of tramp ship service will rise, the price of liner service will remain constant, and ton-miles will increase for both liners and tramp ships.

3. Which of the following concerning international air carrier pricing is correct?
 - a. air carriers do not use commodity rates; they only use class rates.
 - ☒ b. the higher the value of the air cargo relative to its weight, the higher the air cargo price.
 - c. air carrier prices are higher for shippers with a price elastic demand for air transport.
 - d. as the product density of the air cargo increases, the air carrier cost per unit shipped and air carrier prices increase.
 - e. international air carrier prices are determined exclusively by cost variables.

4. Suppose that an economic expansion occurs in Europe causing an increase in trade between Europe and the U.S. Which of the following would be the impact on international air carriers connecting the U.S. to major European cities?
- a. both the demand and supply of air freight would shift to the right causing an indeterminate effect on air freight prices and an increase in ton-miles.
 - b. the supply of air freight would shift to the right causing a decline in air freight prices and an increase in ton-miles.
 - ☒ c. the demand for air freight would shift to the right causing an increase in air freight prices and ton-miles.
 - d. the demand curve would shift to the left causing a decline in air freight prices and an increase in ton-miles.
 - e. both the demand and supply of air freight would shift to the left causing an indeterminate effect on air freight prices and a decrease in ton-miles.
5. Which of the following concerning international air carriers is correct?
- a. most of the goods transported by international air carriers are not time sensitive.
 - b. air parcel post air service specializes in transporting shipments that are greater than 1000 pounds.
 - c. all cargo air carriers specialize in shipments of less than 70 pounds.
 - ☒ d. the principal advantage of the regularly scheduled passenger airlines for air cargo is frequent flights to many foreign destinations.
 - e. the main advantage of courier air carriers is low prices.
6. Which of the following concerning vessels registered under the U.S. flag and vessels registered under flags of convenience is correct?
- a. U.S. flag vessels have lower costs than flag of convenience vessels.
 - b. U.S. flag vessels can have non-U.S. citizen officers and crew.
 - c. U.S. flag vessels dominate U.S. exports and imports of products transported in tramp ships.
 - d. flag of convenience vessels must be built in the U.S.
 - ☒ e. flag of convenience vessels have lower labor and vessel costs than U.S. flag vessels.
7. Which of the following concerning international ancillary services is correct?
- a. NVOCCs play an important role in mini bridge systems.
 - ☒ b. ship agents facilitate ship arrival in ports, loading and unloading, and payment of port fees.
 - c. the only advantage that NVOCCs confer on shippers is lower prices while the only advantage conferred on ocean carriers is solicitation of freight for the ocean carrier.
 - d. ship brokers specialize in consolidating and distributing container freight.
 - e. international freight forwarders buy cargo space on international air carriers and sell the space to shippers.

8. Suppose a container ship is loaded in Japan and shipped to the port of Long Beach, California. The containers are then loaded on to a double stack container train and shipped to the port of New York and New Jersey (the final destination). This is an example of which of the following transportation services.
- a. ship brokerage service
 - b. micro bridge
 - c. land bridge
 - ☒ d. mini bridge
 - e. international freight forwarder service
9. Which of the following concerning international air cargo prices is correct?
- ☒ a. price inelastic cargo is charged a higher price than price elastic cargo.
 - b. international air carriers do not employ differential pricing.
 - c. air carriers providing air parcel post service make extensive use of container rates.
 - d. international air cargo industry is a regulated natural monopoly that is required by regulators to use marginal cost pricing.
 - e. international air carriers use only cost of service pricing.
10. Which of the following concerning conference rate making is correct?
- a. shippers who enter into "exclusive patronage agreements" (i.e., contracts) with conferences pay prices that are 50 percent less than the prices for shippers that don't have these agreements.
 - b. conference rates are equal to the costs of the most efficient carriers in the conference.
 - ☒ c. conference rates are lower for cargo with a high weight per cubic foot density.
 - d. conference rate making hinders the ability of U.S. flag liners to compete in the ocean shipping market.
 - e. conference rates are not affected by the amount of tonnage offered to the conference by the shipper during a given period of time (i.e., time/volume rate).
11. Which of the following regarding conference rate making is correct?
- ☒ a. one of the arguments for conference rate making is that it prevents overcapacity (supply more than demand).
 - b. one of the arguments against conference rate making is unstable prices.
 - c. one of the arguments against conference rate making is that it promotes individual shipper discrimination.
 - d. one of the arguments for conference rate making is that it has no impact on port profits.
 - e. one of the arguments for conference rate making is that it results in market prices.

12. Which of the following concerning liner and tramp ships is correct?
- a. liner service is sold through a chartering system
 - b. liner ships include RORO, LASH, and tanker ships.
 - c. U.S. owned and controlled ocean carrier firms register their ships under the U.S. flag in order to obtain vessel and crew cost advantages.
 - ☒ d. tramp ship prices are more unstable than liner (conference) prices.
 - e. U.S. flag dry bulk and tanker ships dominate U.S. export and import traffic of grain, coal, ores, lumber, crude oil and petroleum products.
13. Which of the following concerning liner pricing is correct?
- a. time/volume rates increase the uncertainty of ocean carrier demand, making it more difficult for the conference to adjust capacity to demand.
 - ☒ b. time/volume rates reduce the uncertainty of ocean carriers demand and allows the conference to better adjust supply to demand.
 - c. "exclusive patronage agreement" contracts are contracts between individual shippers and individual ocean carriers.
 - d. liner pricing always results in a price equal to marginal cost, resulting in allocative efficiency.
 - e. liner pricing has the effect of driving the inefficient carriers out of the market.
14. Which of the following concerning the Ocean Shipping Reform Act is correct?
- a. shipper/carrier contracts must be filed with the FMC and all terms of the contract must be made public.
 - b. conferences can prohibit any conference member from negotiating individual contracts with shippers.
 - ☒ c. the act's key components are independent pricing by individual ocean carriers and confidential shipper/carrier contracts.
 - d. conferences may adopt rules affecting the right of any conference member to enter into a contract with a shipper association.
 - e. conferences can require any member of the conference to disclose the contents of contracts it has negotiated with a shipper.
15. According to a study by the Federal Maritime Commission (FMC), which of the following concerning the impacts of the Ocean Shipping Reform Act is correct?
- a. the number of liner conferences has increased since passage of the act.
 - b. very few shipper/carrier contracts have been filed with the FMC since passage of the act.
 - c. the number of liner conferences has not changed since passage of the act.
 - d. most of the shipper/carrier contracts are contracts between one shipper and many ocean carriers.
 - ☒ e. most of the shipper/carrier contracts apply to one trade route and are for one year.

16. Which of the following regarding the tramp ship chartering system is correct?
- ☒ a. in the time charter, the shipowner rents the vessel and a crew to a ship broker while in the demise charter the ship broker supplies the crew and operates the vessel.
 - b. the prices and ship rents in the chartering system are fixed by the conference to which the ocean shipping firm belongs.
 - c. the shipowner always provides the crew in the tramp ship chartering system.
 - d. in the case of demise charters, after a single voyage is completed the charter is terminated.
 - e. in the case of time charters, the ship owner rents only the vessel to a ship broker for a period of time.
17. Which of the following concerning liner and tramp ship pricing is correct?
- a. tramp ships employ the chartering system to keep tramp ship prices from changing in response to demand changes.
 - ☒ b. in short run tramp ship pricing, most of the impact of change in demand is reflected in the price of tramp ship service due to the short run price inelasticity of supply for tramp ships.
 - c. the short run price elasticity of supply of tramp ships is more price elastic than the long run elasticity.
 - d. if there is a decrease in the demand for international ocean carrier service, both liner prices and tramp ship prices will decrease.
 - e. in short run tramp ship pricing, most of the impact of a change in demand is reflected in a change in the amount of tramp ship ton-miles rather than a change in price.
18. In class we discussed the *Wall Street Journal* article titled, "Delta Raises Fares as Fuel Soars". Based on that discussion, which of the following is correct?
- a. Delta says it will raise fares and increase capacity as well
 - b. Delta says fares on domestic routes have adjusted to fully offset higher fuel costs
 - ☒ c. Delta says it will cut back in markets where it can't pass along higher fuel costs
 - d. All the airlines will cope with higher fuel costs by raising Fares, not by reducing capacity
 - e. Airlines reduce fares in the summer and raise them in the fall
19. Which of the following concerning Amtrak is correct?
- a. Amtrak service frequency is comparable to that of airlines.
 - b. Amtrak revenue per passenger mile is lower than that of Class I intercity bus and coach airfares.
 - c. Congress has allowed Amtrak to abandon 50% of its routes since 1995.
 - ☒ d. the IRS routes are the most price elastic on the Amtrak system.
 - e. speed on NEC routes is lower than on the IRS routes.

20. Suppose that Amtrak prices increase 10% relative to airline fares. Which of the following will be the impact on Amtrak passenger miles?
- a. a 5.0 percent increase
 - b. a 10.0 percent increase
 - c. a 6.0 percent decrease
 - d. a 10.0 percent decrease
 - ☒ e. a 5.0 percent decrease
21. Suppose that to preserve their jobs and Amtrak the members of the labor unions employed by Amtrak agree to a significant wage reduction. Which of the following is the most likely effect on Amtrak prices and passenger miles?
- a. the Amtrak demand curve will shift to the right causing an increase in Amtrak price and passenger miles
 - ☒ b. the Amtrak supply curve will shift to the right causing a decrease in Amtrak price and an increase in Amtrak passenger miles
 - c. both the demand and supply curves of Amtrak will shift to the left causing no change in Amtrak price and a decrease in Amtrak passenger miles
 - d. the Amtrak supply curve shifts to the left causing an increase in Amtrak price and a decrease in Amtrak passenger miles
 - e. both the demand and supply curves of Amtrak will shift to the right causing no change in Amtrak price but an increase in Amtrak passenger miles
22. Which of the following concerning Amtrak performance in the 1995, 1996, and 1997 fiscal years is correct?
- ☒ a. in fiscal years 1996 and 1997, the Amtrak West division achieved the largest increases in passengers and passenger miles.
 - b. based on changes in ticket prices and passenger revenues in fiscal years 1995 and 1996, the demand for NEC and AW service is price elastic while that of the IRS divisions is price inelastic.
 - c. in both fiscal year 1995 and 1996, passenger revenue decreased in the NEC division but increased in the AW division.
 - d. in fiscal years 1995 through 1997, both passengers and passenger miles decreased in all three Amtrak divisions.
 - e. based on changes in ticket prices and passenger revenues in fiscal years 1995 and 1996, the demand for all three Amtrak divisions is price inelastic.

23. Amtrak raised passenger ticket prices in fiscal years 1995, 1996, and 1997. The impact of the price increase on passenger revenue varied by Amtrak Division revealing variation in price elasticity of demand. Assuming this is true, which of the following is correct?
- a. to increase passenger revenue, Amtrak should raise prices in all three divisions.
 - b. to increase passenger revenue, Amtrak should raise prices in the NEC division and raise prices in the IRS division.
 - c. price elasticity in the IRS division is more inelastic than price elasticity in the AW and NEC divisions.
 - ☒ d. to increase passenger revenue, Amtrak should raise prices in the AW division and reduce prices in the IRS division.
 - e. to increase passenger revenue, Amtrak should reduce prices in the AW division and the NEC division.
24. Which of the following concerning the market sectors of the intercity bus industry is correct?
- a. special bus service is usually initiated by a travel agent.
 - b. regular route bus service has been growing more rapidly than special bus and charter bus service.
 - ☒ c. in charter bus service, a travel agent plans the trips and sells the seats.
 - d. special and charter bus service includes multiple trips over an extended period of time to multiple destinations.
 - e. special bus service operates as scheduled regardless of demand.
25. Which of the following regarding intercity bus industry costs and revenues is correct?
- a. Class I intercity buses have a high percentage of fixed cost because they have no investment in the highway system.
 - b. Greyhound accounts for 50 percent of the industry's revenue.
 - c. Class I intercity buses have a high percent of fixed costs in the long run.
 - d. labor costs account for a minor percent (less than 10%) of intercity bus operating costs.
 - ☒ e. Class I intercity buses have a high percent of variable costs because they have no investment in the highway system.
26. Which of the following regarding the cost structure of the intercity bus industry and its use of differential pricing is correct?
- a. the intercity bus industry employs differential pricing to a greater extent than freight railroads and the major airlines.
 - b. the intercity bus industry charges relatively high prices for passengers that have a price elastic demand for transportation.
 - ☒ c. the intercity bus industry does not employ differential pricing since it has a high percentage of variable costs and most of its passengers have an elastic demand for transportation.
 - d. the intercity bus industry employs differential pricing since it has a high percentage of fixed costs and its passengers have different price elasticities of demand.
 - e. the intercity bus industry employs differential pricing because of its market power and ability to separate markets.

27. Which of the following significantly contributed to the increase in the airline share of the for hire passenger transportation market in the post WW II period?
- a. increased federal government economic regulation to stabilize the finances of air carriers.
 - b. a shift in airline intramodal competition from service competition to price competition.
 - c. a decline in Amtrak subsidies.
 - ☒ d. increased real income.
 - e. a decrease in federal government subsidies of the intercity bus carriers.
28. In class we discussed the *Kansas City Star* article titled, "Wi-Fi in the Road." Based on that discussion which of the following is correct?
- ☒ a. smart pavement can detect crashes as they occur
 - b. the technology is being tested in Kansas
 - c. the technology does not improve road safety
 - d. smart pavement is built at the construction site
 - e. precast concrete requires more maintenance
29. Which of the following regarding the intramodal and intermodal competition confronting airlines is correct?
- a. intermodal competition is more intense than intramodal competition
 - ☒ b. airline intramodal competition includes price competition and service competition and is more intense than intermodal competition.
 - c. intramodal service competition is limited solely to on-time reliability.
 - d. intramodal service competition in the airline industry is limited solely to frequent flyer programs.
 - e. airline intramodal competition includes price competition but not service competition.
30. Which of the following statements concerning airline pricing is correct?
- a. airlines charge passengers with elastic demand a higher price than those with inelastic demand.
 - ☒ b. airlines charge passengers with inelastic demand a higher price than those with elastic demand
 - c. airlines do not employ differential pricing since they have a high percentage of variable costs.
 - d. airlines charge higher prices during off peak periods to compensate for lower passenger boardings.
 - e. airlines differentiate prices by type of passenger, not by route or time.

31. Assume a given current demand for airline X and a given route. Now suppose the price of a competing airline (airline Y) increases. Which of the following will occur?
- ☒ a. the quantity demanded (passengers) of airline Y decreases and the demand for airline X increases.
 - b. the quantity demanded (i.e, passengers) of airline Y decreases and the demand for airline X decreases.
 - c. the demand curve for airline X shifts to the right and the demand for airline Y shifts to the left.
 - d. the demand for airline Y decreases and the demand for airline X is not affected.
 - e. the quantity demanded (i.e, passengers) of both airlines decreases.
32. Which of the following is correct?
- a. a change in airline demand is always caused by a change in the airline's own price
 - ☒ b. the term "change in airline demand" refers to a movement along a given airline demand curve
 - c. the term "change in airline quantity demanded" refers to a shift of a given airline demand curve to the right or left
 - d. a change in airline demand could be caused by a change in the prices of competing airlines
 - e. a change in airline quantity demanded for a given airline could be caused by a change in the prices of rental cars or hotels
33. Which of the following statements concerning air carrier costs and economies of scale is correct?
- a. the principal air carrier fixed costs are labor and fuel.
 - ☒ b. in the short run, the federal airway costs of airlines are variable costs for the airlines.
 - c. airlines have substantial scale economies due to capital intensive production and factor indivisibilities.
 - d. in the short run, all air carrier costs are variable.
 - e. airline variable costs consist mainly of insurance and ticket reservation systems.
34. Which of the following regarding cost structure and economies of scale in the airline industry is correct?
- a. economies of scale in the major airline industry are equal to economies of scale in the Class I railroad industry since both are oligopolies.
 - b. airlines have a high percent of fixed costs in the short run due to the high fixed costs of airplanes.
 - ☒ c. airlines have a high percent of variable cost since they have no investment in the airway system or airports.
 - d. in the long run, most airline costs are fixed.
 - e. airlines have a high percent of fixed costs and the greatest economies of scale of any transport mode.

35. Which of the following would cause a decrease (shift left) in the current demand for a given airline on a given route?
- a. an increase in the prices of other airlines
 - b. an increase in income
 - c. an increase in the given airline's own price
 - d. a significant increase in the expected future price of the airline
 - ☒ e. a significant increase in car rental and lodging prices

Answer the following 3 questions using the data below for a particular airline.

(Millions) ASM	(Millions) RPM	(Dollars) Yield	(Thousands of Dollars) Marginal Revenue	(Thousands of Dollars) Marginal Cost
1.0	0.800	\$0.275	-	-
1.5	1.125	0.270	83.8	50
2.0	1.400	0.265	67.2	40
2.5	1.625	0.260	51.5	50
3.0	1.800	0.255	36.5	60
3.5	1.925	0.250	22.3	70

36. What is the profit maximizing RPM?
- ☒ a. 1.625
 - b. 1.800
 - c. 1.925
 - d. 1.125
 - e. 1.400
37. What is the profit maximizing yield?
- a. 0.250
 - b. 0.270
 - c. 0.265
 - ☒ d. 0.260
 - e. 0.255
38. What is the profit maximizing load factor?
- a. 55 percent
 - ☒ b. 65 percent
 - c. 75 percent
 - d. 70 percent
 - e. 60 percent

39. Which of the following would cause an increase (shift to right) in the current demand for a given airline on a given route?
- a. the expected future price of the given airline decreases
 - b. an increase in the given airline's own prices
 - c. a significant increase in car rental and lodging prices
 - d. a decline in passenger income
 - ☒ e. an increase in price by the other airlines flying the route
40. Which of the following combinations of variables is consistent with a price elastic demand for an airline serving a given route (all variables must be elastic)?
- a. a short distance flight and only one airline serves the route.
 - b. business travel and a short distance flight.
 - ☒ c. a long distance flight and many airlines serve the route.
 - d. business travel and only one airline serves the route.
 - e. a low passenger density route and short time frame for passengers to make the trip.