

gov build? - maximizing social welfare

Is Surplus > Cost?

Benefit > Cost?

Initial $P = \$8$

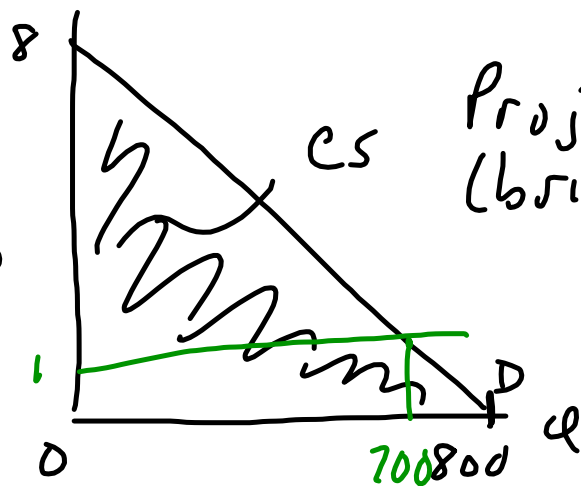
$WTP \equiv D$

$P = MC = 0$

$$CS = \frac{1}{2} \cdot 8 \cdot 800,000 = 3,200,000$$

$$B = 3.2 > C = 2.0$$

Yes build



Project (bridge)
 $P = \$0$

Practice MC questions p 324

Monopolistic Comp.

- close substitutes - brand name
- qualitative diff

interdependence - entrant

capture some incumbent

market share - market finite

zero sum game

Firm x enters
going to take market share
all other firms.

positive sum game

- entrant expands market

- real difference

- perceive different.]

growth industry ↗

- Fig 1 p331 } MC Q p 345
- Table 1 p344 } Q 6 p 346.

Chapter 11 Oligopoly

Structure \rightarrow few firms - entry.

Conduct \rightarrow products very close.
substitutes

Performance $\rightarrow \pi > 0$

- collusion \rightarrow raise prices
cartel. - illegal

- duopoly \rightarrow 2 firms in market
- share market

- interdependent if firm A
increases \downarrow then price B sees \downarrow

Example - 2 firms
 - bottled spring water

strategies - High Q Table 1.
 Low Q.

2 player game - 2 strategies

| | | | |
|------|----|-----------------------|-----------------------|
| | | Jill | |
| | | 40 | 30 |
| Jack | 40 | 16, 16 - / 32 | 20, 15 - / 35 |
| | 30 | 15, 20 - / 35 | 18, 18 - / 36 |

- each choose 30
 + agree

total Π 36

Jack
 40 + Jill 30
 20 > 18
 40 + Jill 40
 16 > 15

40 → dominant strategy

joint output 18, 18 \rightarrow monopoly Q
& share monopoly Π

- cartel \rightarrow agreement to not compete

OPEC - 1973 400% \uparrow price increase
in oil.

US - held firm at old price

gas shortages

- cartels very short-lived

- illegal \rightarrow reports on them

- not illegal \rightarrow incentive to cheat

- "facilitating practice" - signal P or Q
changes - coordinate
- advance notice of pending price \uparrow \downarrow
 - matching response price change
in effect
 - set price inclusive of delivery.
- p361 - phone exchange on price fixing

- repeated game - cheat now but lose
 future profits]

20 now but may see 16 in future

- responses to cheating

- extreme - play 40 forever 16

- eternal punishment

Grim Trigger Strategy (Friedman)

- forgive and forget - play 40 1 round
 after cheated on
 go back to 30 after
 tit-for-tat

- most natural settings - repeated games
 - cooperation essential.
- mutual forbearance - share a market

Q6 - p368]
Q5 - p368]

Antitrust Regulations

- Resale Price Maintenance - min price set by manufacturer
- Predatory pricing - price < cost