

Test 3 - April 24 Monday

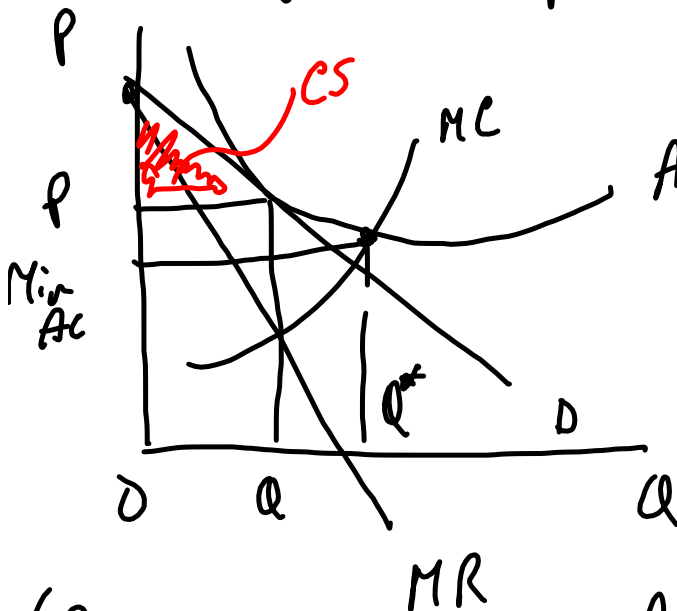
Example Qs -

Q6 p 346 - toothpaste

- product differentiate

- brand names → signal of quality

entry \rightarrow stop when marginal
firm - expect 0π



$MC = MR \rightarrow Q$

AC Price to Demand

$P = AC \rightarrow \pi = 0$

(d) not at min
of AC

$AC_{MC} > AC_{efficient}$

$(P - \min AC) - \text{markup for choices}$

Oligopoly - example use
game theory

Q6 } prisoner's dilemma
Q5 } equilibrium → bad outcome

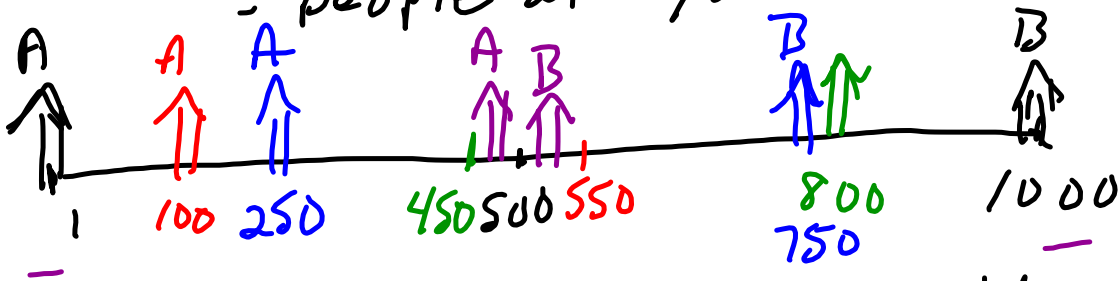
R+D → rank order tournament
contest where success
is relative
- patent system - winner take
all.

Monopoly - 1 firm

Monopolistic Comp - few firms
- similar products
- differentiated products
brand name & ads

Oligopoly - few firms
- similar (identical)
- compete on output / price

- one form of competition → location
- beach - 1000 yds
- people at 1yd intervals



- ice cream vendors - identical product & price

A - 550 B - 450

customer - optimal 250 + 750 average walk together

midpoint → competition for market share

ice cream 125 yds

separation of ownership & control
Share holders management

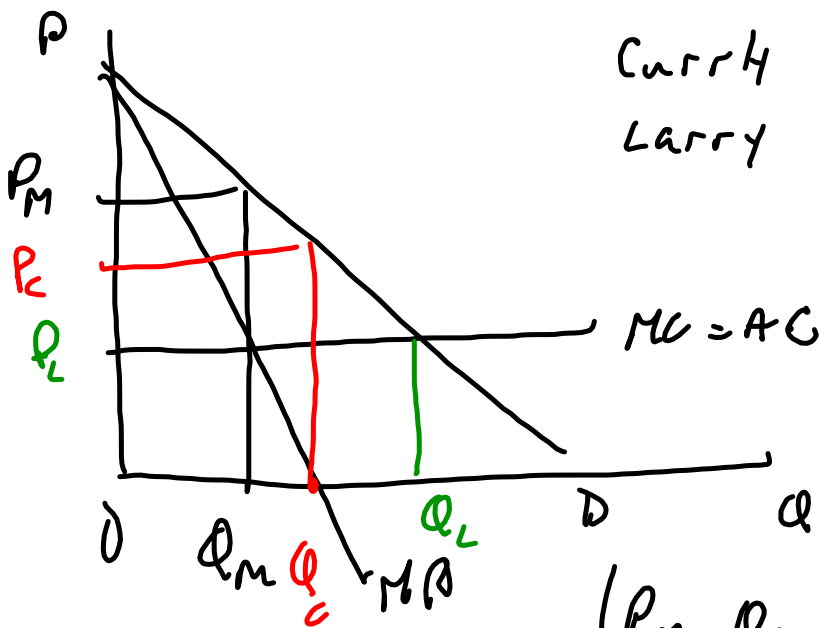
- objectives differ.

Q5 p 325. - one saloon in town

Larry - max drinks sold without losing \$

Curly - max revenue

Moe - max profits



Curly $MR = 0$

Larry $P = AC$ so $\pi = 0$

Manager is Owner (P_M, Q_M)

Manager rewarded for Revenue (Curly)

(P_C, Q_C)

Market size (share) Larry subject

$P \geq AC$

- 1960s / 1970s -

Oliver Williamson -

comp managers stock options

x% cash x ↓ y > x
y% options y ↑

Inflate value of stocks -

Enron - contracts for gas (20 year)

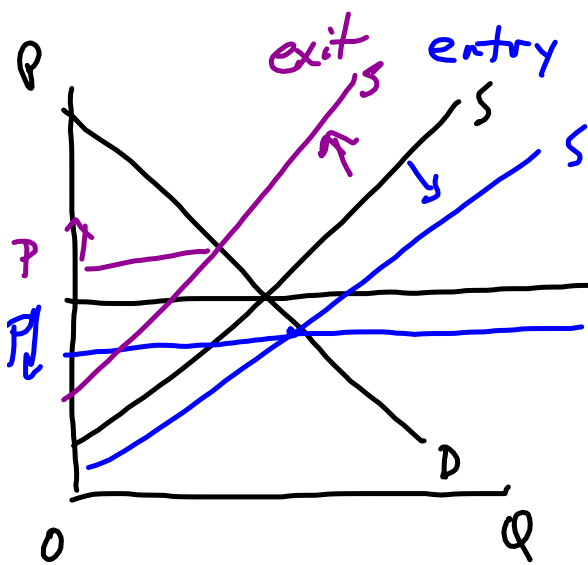
sold contract in 1990

- attribute all 20 years to 1990

Ken Lay
James Skilling.]

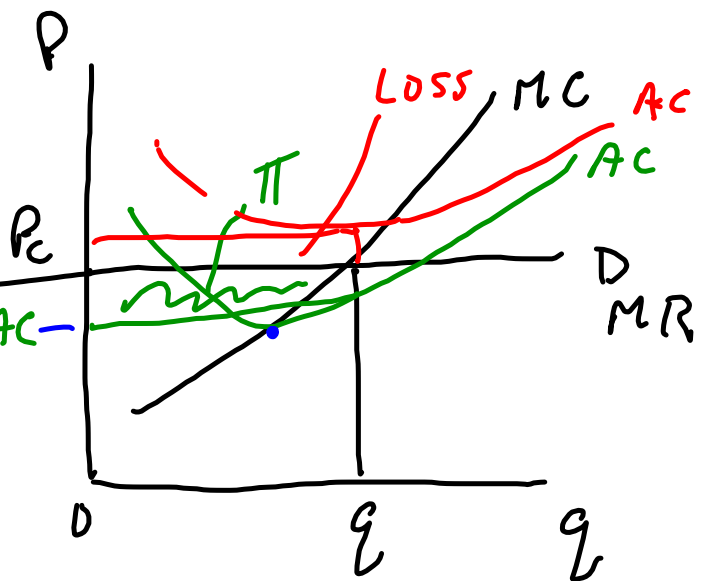
Chapter 14 Perfect Competition price competition

- homogeneous product (no brands)
- free entry & exit \rightarrow perfect substitutes
- symmetric info
- perfect info
- in equilibrium $P = AC$ & $\pi = 0$
- large number of competitors
- consumer chooses supplier based on price



market

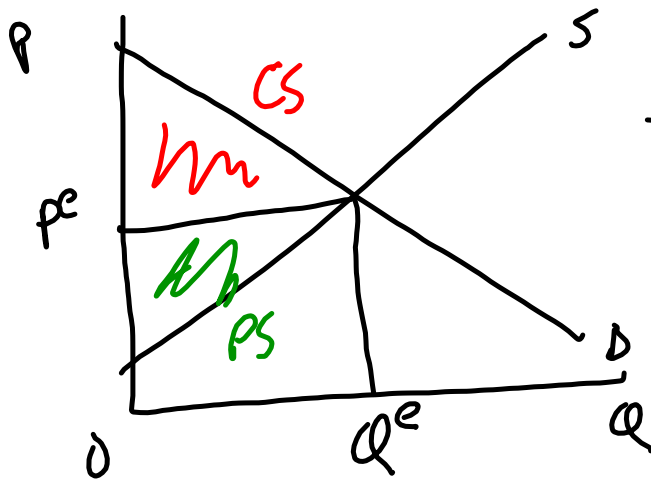
entry until $P = AC$
 $\pi = 0$ $P \downarrow$
 exit $P > AC$ $\pi = 0$
 $P \uparrow$



firm

D - infinitely elastic
 $\eta = \frac{\eta_0 \Delta Q}{\eta_0 \Delta P} = \infty$

Market efficiency

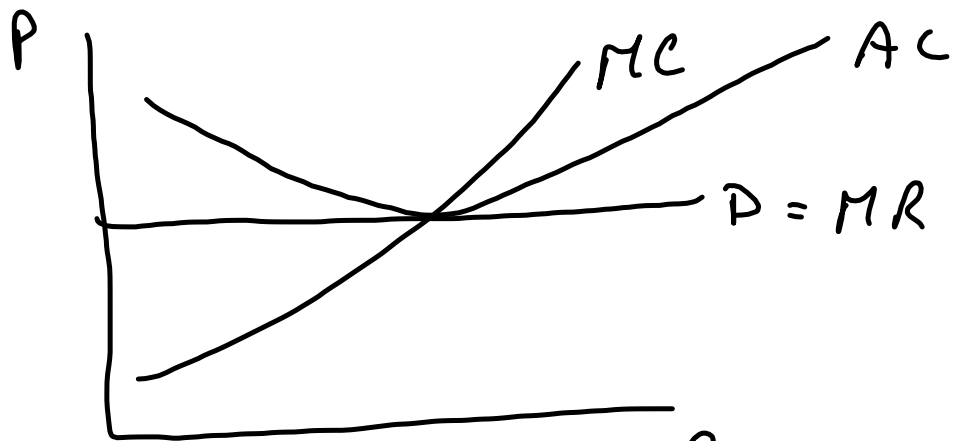


Max CS + PS

- allocative efficiency
 WTP = WTA
 max surplus

technical efficiency
 possible cost

- lowest



min⁰ AC of production
 technical efficiency - lowest cost