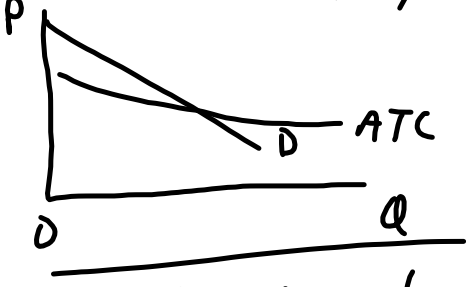
Q4 p 325 Monopoly

Q8 p 325 next week

franchise monopoly - natural monopoly

Bridge

Price	Crossings (1000s)	TR (p·Q)	MR
8	0	0	] 700
7	100	700	] 500
6	200	1200	] 300
5	300	1500	] 100
4	400	1600	] -100
3	500	1500	] -300
2	600	1200	] -500
1	700	700	] -700
0	800	0	



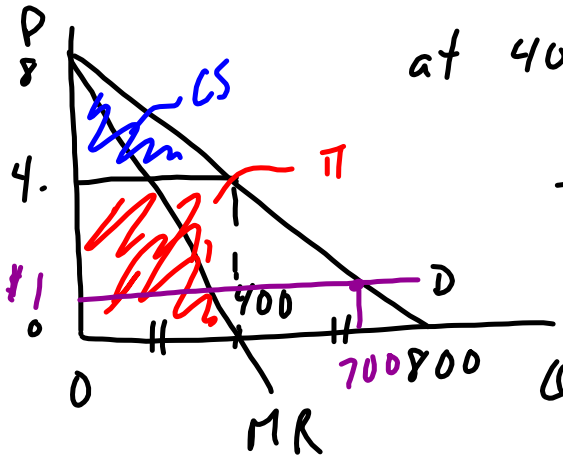
Fixed Cost
$2 million.
Marginal cost
$0

MR = MC

MR = 0

π max Q - 400,000

P = $4



at 400,000 crossings

$P = \$4.00$

$TR = \$1.6$ mill

$TC = \$2.0$ mill

$\pi = \$-0.4$ mill

Efficiency → $MC = 0$ optimal $P = \$0$

$WTP = WTA$

$P = 0 = MC$ $\pi = -\$2.0$ mill

Should gov't build bridge?

No bridge $P > 8$ → Consumer surplus = 0

$P = 0$ $CS = \frac{1}{2} \cdot 800 \cdot 8$

$= 400{,}000 \cdot 8 = \$3.2$ million

Cost = $\$2.0$

$\$1.2$ " Net Benefit

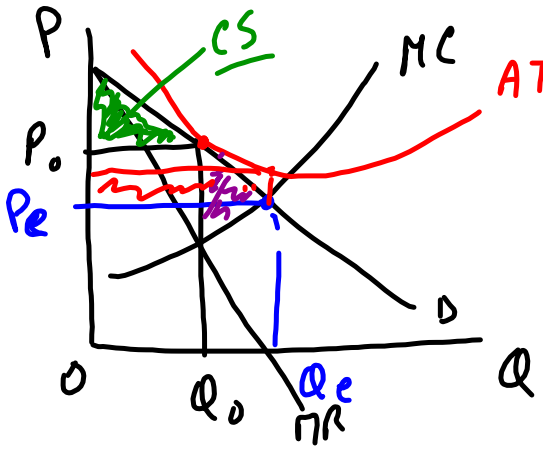
$\frac{1}{2} \cdot 700{,}000 \cdot 7 =$
$\$2.45$ mill

Q 6 p346

Monop. Comp

Sparkle - LR equil.

$\pi = 0$ $P = ATC$



MR = MC

& Price on D curve

No entry & no exit.

Q 10 p346 * next week

$Q_0 < Q_e$ so DWL

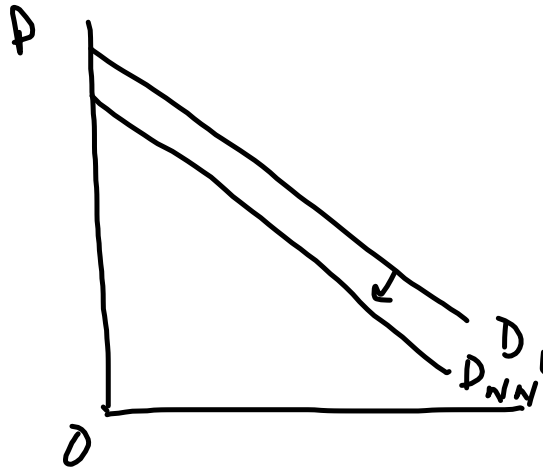
If force Sparkle to charge $P = MC$

$\pi < 0$ $P_e < ATC$ so $\pi < 0$

at Q_0 not min. on ATC

- excess capacity
- product diff → choice
  brand name → bond.

value of name - show up in D curve



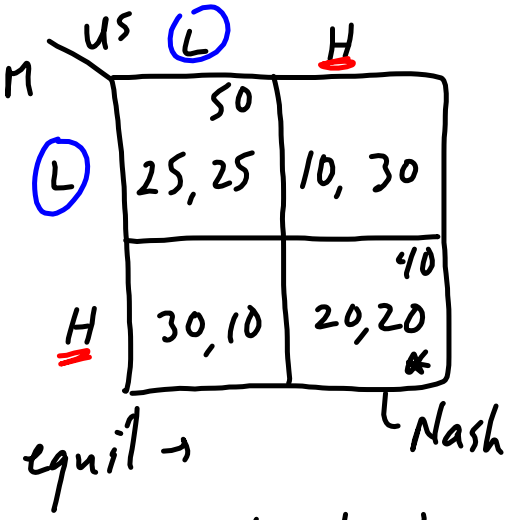
with name → lower transaction cost (search less)

without name - consumer research trans. cost

D_{NN} - lower D_{WN}

- transaction cost "tax" on transaction

Q4 p 368



Q8 p 368 *

Mexico / US. tariffs.

pop Mexico 125 mill.

purchasing power 11th in world.

Exports US to Mexico $ 0.4 Trillion

For M H → best response to L (30 > 25)

H (20 > 10)

H - dominant strategy

(H, H) Nash Equilibrium