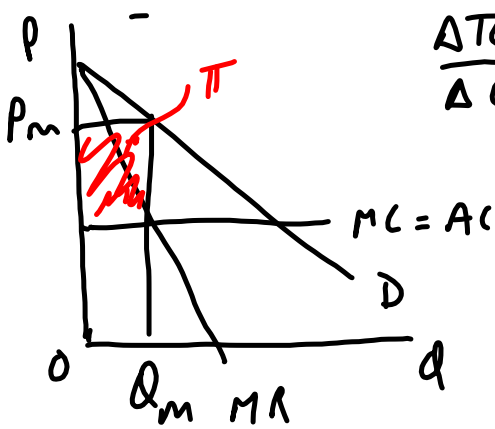


Monopoly



$MC = MR$ to max π .

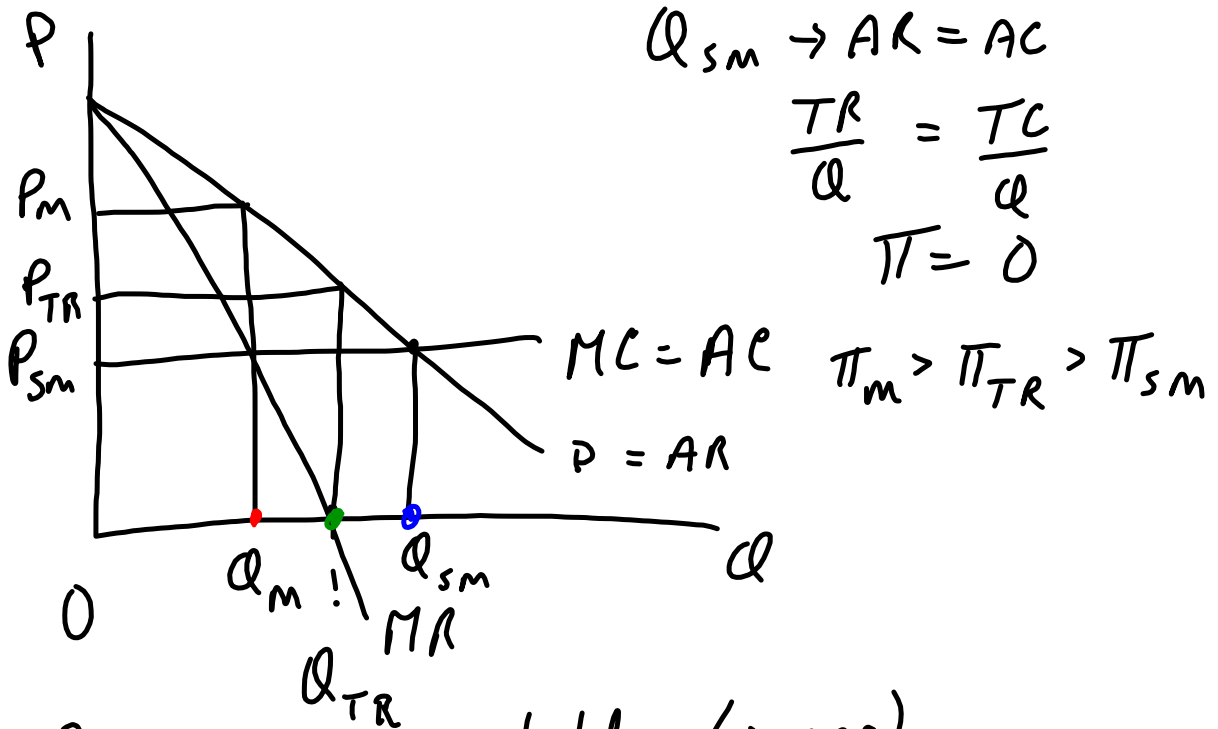
$$\frac{\Delta TC}{\Delta Q} = \frac{\Delta TR}{\Delta Q} \quad \pi = TR - TC$$

- assuming owner of firm runs firm

Separate owner & manager
Oliver Williamson

Owner - always $\max \pi$ - realize other motivations from π

Manager - incentives
risk of being fired reduced
- maximize sales subject to } ②
selling (P) $P > AC$
- maximize TR $MR \geq 0$ } ③



Principal → shareholder (owner)
 Agent → manager

"Solution" → manager shares in firm
 compensation = salary + shares

↳ π max

Assymmetric info
 manager knows more than owners

Corporate (Managerial) Fraud.]

Wells Fargo - Deposit 0.1%
 Borrow 3.6 - 14%

Enron - 20yr contract 1996 - 20. Yearly sales attributed to 1996

Countrywide -

Volkswagen -

HealthSouth -

Wachovia

AIG

