

Problem Set # 3

1) If a monopoly faces an inverse demand function of $p = 90 - Q$, has a constant marginal and average cost of 30, and can perfectly price discriminate, what is its profit? What are the consumer surplus, total surplus, and deadweight loss? How would these results change if the firm were a single-price monopoly?

2) A monopoly sells its good in the Italian and French markets. The Italian inverse demand function is $p_I = 100 - Q_I$, and the French inverse demand function is $p_F = 80 - 2Q_F$, where both prices, p_I and p_F , are measured in euros. The firm's marginal cost of production is $m = 20$ in both countries. If the firm can prevent resale, what price will it charge in both markets?

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1) Which of the following conditions must be true so that a firm can profitably price discriminate?

- A) There are no other firms in the market.
- B) The good is a non-durable.
- C) The good cannot be easily resold.
- D) All of the above

2) Two-part pricing offers a mechanism whereby the firm can

- A) charge two different prices to distinct groups of customers.
- B) collect two times as much from consumers as a single-price monopoly can.
- C) capture some or all of the consumer surplus.
- D) reduce some of its fixed costs.

3) A firm will increase its spending on advertising until

- A) it has monopolized the market.
- B) it has deterred all future entry.
- C) the marginal benefit of advertising is zero.
- D) the marginal benefit of advertising equals the marginal cost of advertising.

4) If Ben values good X more than good Y and Catherine values good Y more than good X a firm can increase its profits by

- A) charging the same price for both goods.
- B) bundling the goods.
- C) selling the goods in a competitive market.
- D) charging one price per good

5) "Two-part pricing allows the monopoly firm to capture all of the potential consumer surplus generated by the sale of its product". Is this statement true or false? Explain why.