Lecture 12: In-class Problems

EVENING

11/17/2020

Q1)

your reasoning.

2. Identify and explain the sources of market power for each case listed below:

a. In the early 1990s, the DeBeers diamond cartel controlled almost all of the world's rough diamond production.

b. Microsoft's Word has a virtual monopoly in word processing, even though many claim that better word-processing programs exist.

c. Union Pacific dominates the rail shipping market in the north central United States.

d. In Louisiana, people must pass a licensing test before they can arrange flowers for a living.

(a) control of key inputs

(b) switching costs.
   ≡ network good

(c) natural monopoly
   economies of scale,
   large fixed costs

(d) gov't regulation

Q2)

are maximized.

14. Suppose that a monopolistic seller of designer handbags faces the following inverse demand curve: $P = 50 - 0.4Q$. The seller can produce handbags for a constant marginal and average total cost of $10.

   a. Calculate the profit-maximizing price for this seller.

   b. Suppose the government levies a $4 tax per unit on sellers of handbags. Calculate how this tax will affect the price the monopolist charges its customers.

   c. Who bears the burden of this tax?

(a) $P = a - 2bQ$

Inv. demand curve
$P = 50 - 0.4Q$

Find where $MR = MC$

$MR = 10$

Find MR

$MR = 50 - \overset{(0.4)2(Q)}{0.8Q}$

Set $MR = MC$

$50 - 0.8Q = 10$

$40 = 0.8Q$

$Q = 50$

Find profit max price

Plug Q=50 into mr. demand eqn

$P = 50 - 0.4Q$

$P = 50 - 0.4(50)$

$P = 30$