

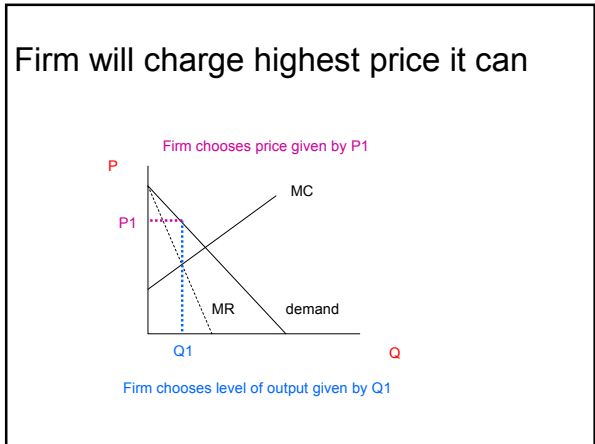
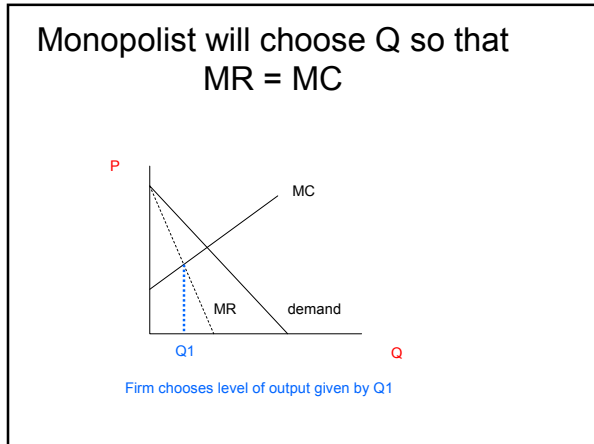
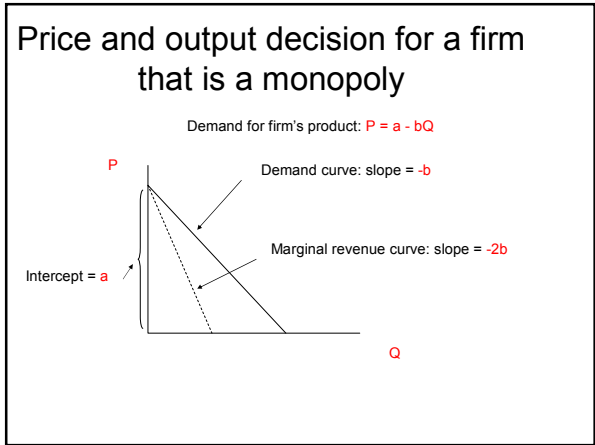
Econ 2 TA section assignments

Mon 4-4:50	PETER 103	(1) Vinayak Alladi (2) Ahmad-Reza Sharif
Mon 10-10:50	WLH 2204	Matthew Louie
Wed 3-3:50	CENTR 222	Roy Allen
Wed 5-5:50	PETER 103	Martha Gimbel
Fri 4-4:50	PETER 103	Soojin Jo
Fri 5-5:50	PETER 103	Ayal Chen-Zion

(1) first half of course; (2) second half of course

Chapter 9: Monopoly, Oligopoly, and Monopolistic Competition

- A. Total revenue and marginal revenue
- B. Total cost, marginal cost and fixed cost
- C. Profit maximization
- D. Monopoly



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- E. Perfect competition

We said that a monopolist would make the most profit by setting $MR = MC$
But wouldn't all firms, whether or not they have a monopoly, also want to set $MR = MC$?

Answer: yes they would and standard economic theory assumes that they do



Consider entire U.S. market for tomatoes

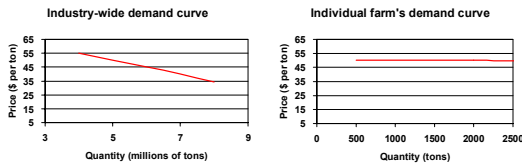
- More than five million tons produced each year
- Sell wholesale around \$50/ton
- Suppose demand has elasticity of 1
- Means 10% increase in U.S. production (500,000 more tons) would lower price by 10% (from \$50 to \$45)



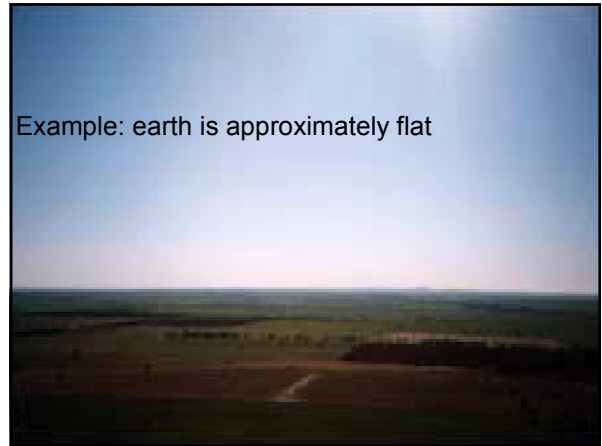
Consider individual tomato farm

- Produces 1,000 tons per year
- 10% increase in one farm's production is 100 tons
- This is $1/50,000 = 0.002\%$ of U.S. market
- U.S. price would drop 0.002% (from \$50/ton to \$49.99/ton)

Comparison of industry-wide demand curve with individual producer's demand curve



Example: earth is approximately flat



Perfect competition: firm for all practical purposes ignores any potential effect of its actions on the market price

- Represent as: marginal revenue = price for a firm in a perfectly competitive market
- Justification: marginal revenue is so close to price that they are for all intents and purposes the same number

Chapter 9: Monopoly, Oligopoly, and Monopolistic Competition

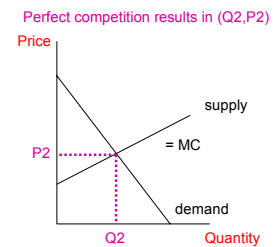
- Total revenue and marginal revenue
- Total cost, marginal cost and fixed cost
- Profit maximization
- Monopoly
- Perfect competition
- Comparison between perfect competition and monopoly

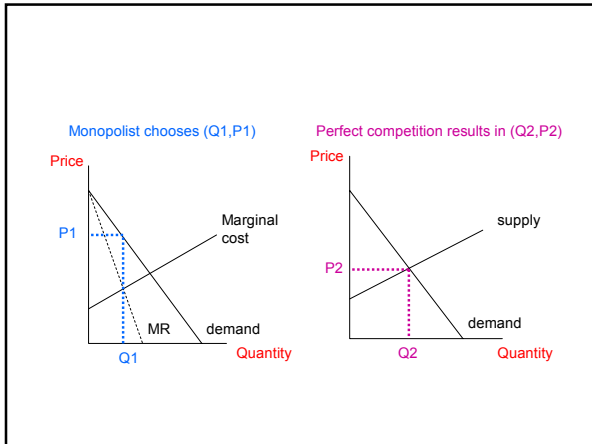
Monopoly:

- One firm controls entire market, $MR < P$
- Profit maximization calls for $MR = MC$

Perfect competition:

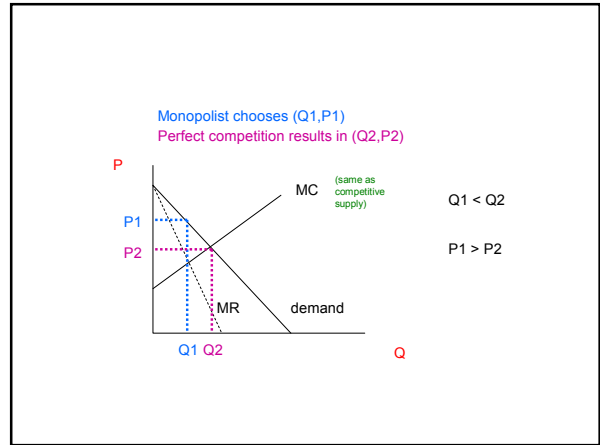
- Many firms compete, $MR = P$
- Profit maximization calls for $P = MC$
- Implication: under perfect competition, supply curve is the MC curve



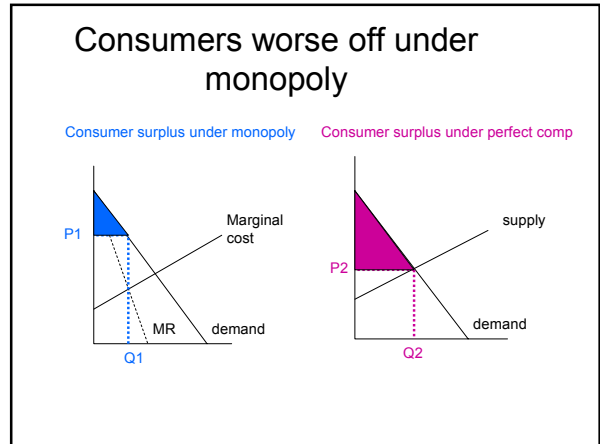


John D. Rockefeller set out to acquire all oil production and refining operations in the 1870's

If one single company controlled all the tomato farms, what would be the result?

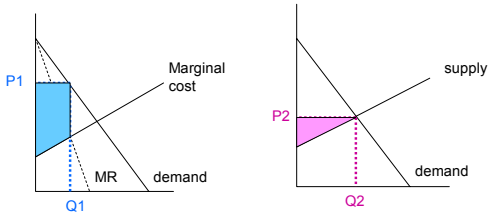


Conclusion: monopoly results in a higher price and less output being produced



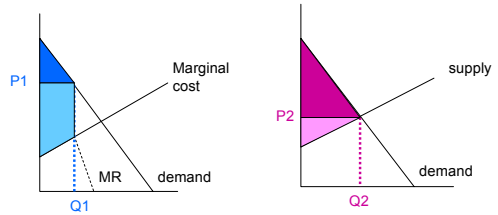
Firms better off under monopoly

Producer surplus under monopoly Producer surplus under perfect comp



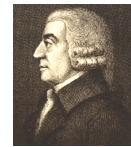
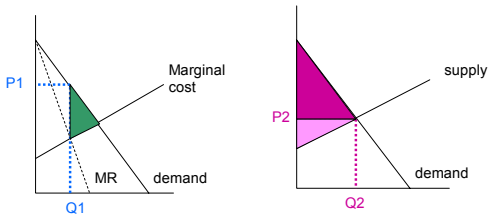
Society worse off under monopoly

Total surplus under monopoly Total surplus under perfect comp



Society worse off under monopoly

Deadweight loss under monopoly Total surplus under perfect comp



Adam Smith (1776):

An individual producer "neither intends to promote the public interest, nor knows how much he is promoting it ... [but is] led by an invisible hand to promote an end which was no part of his intention."

Why "invisible hand" works under perfect competition:

Marginal cost to firm from producing one more unit = resources that must be surrendered to produce the good

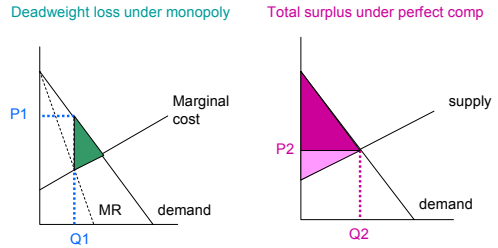
Marginal benefit to customer from producing one more unit is the price they're willing to pay

If marginal benefit to consumer (price) were greater than marginal cost of production, society would be better off producing one more unit.

Under perfect competition, marginal benefit to consumer (price) is set equal to marginal cost, and so social surplus is maximized.

Under monopoly, price (marginal benefit to consumer of getting more goods) is greater than marginal cost to society of producing one more unit.
 Deadweight loss results when these desired goods don't get produced.

Deadweight loss represents goods that should be produced but aren't



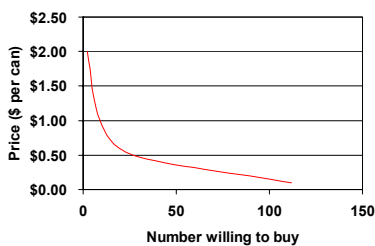
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- E. Perfect competition
- F. Comparison between perfect competition and monopoly
- G. Price discrimination

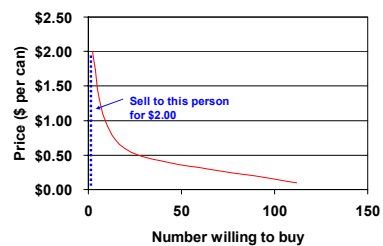
Up to this point, we assumed that monopolist had to charge all customers the same price

Price discrimination: monopolist has the power to charge different people different prices for the same product

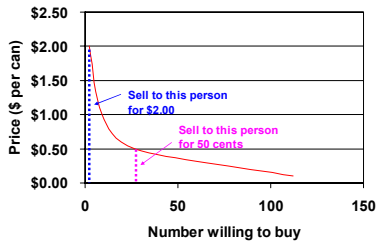
Demand for coke curve



Demand for coke curve



Demand for Coke curve



“Perfect price discrimination”: monopolist can charge each customer the maximal amount that customer is willing to pay
Under perfect price discrimination, marginal revenue would be the price

Monopolist that can discriminate perfectly

