

## 1. Price discrimination

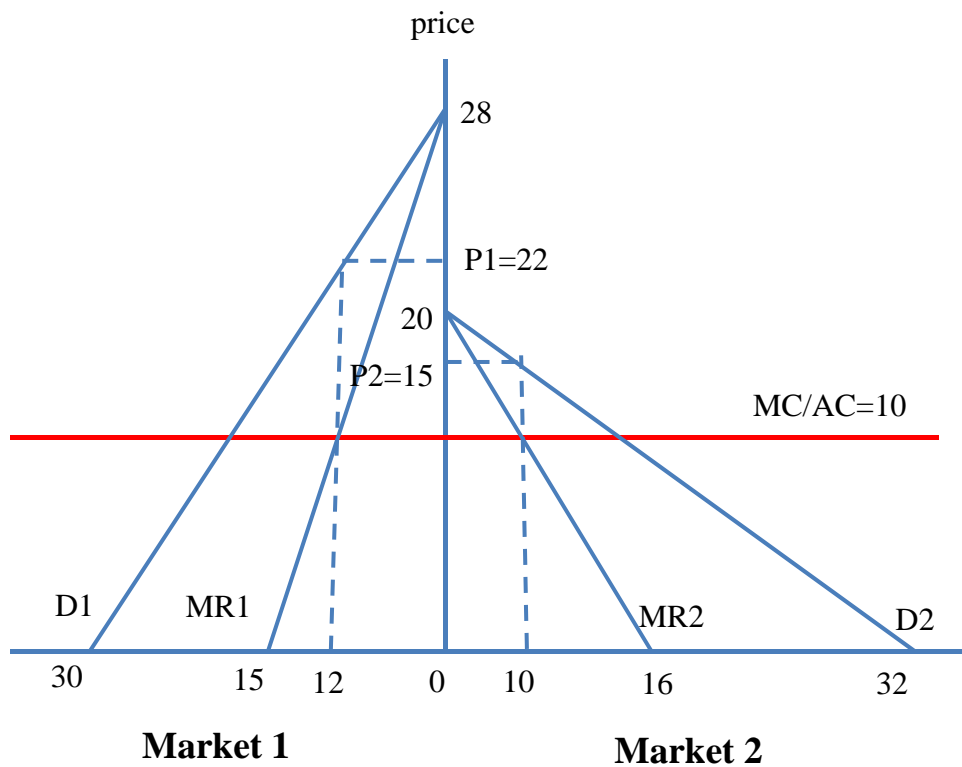


Figure 3.1 Price discrimination in two rail markets

Figure 3.1 refers to a rail operator that is practicing price discrimination, charging a different price to the passenger in market 1 compared to those in market 2. It is assumed that costs are constant, therefore  $MC=AC$ .

1. What does figure 3.1 reveals about the type of passengers using the service and their relative elasticity?
2. Calculate the abnormal profit earned by the rail operator by price discriminating.
3. Are there any beneficiaries from price discrimination and what happens to consumer surplus when price discrimination is practiced?

## Perfect competition vs. Imperfect competition in transport markets

1. Discuss transport markets operate under perfect competition and monopoly in term of price and quantity output. Costs have been assumed to follow constant returns with no economies of scale.
2. Explain why there is net welfare loss in monopoly.