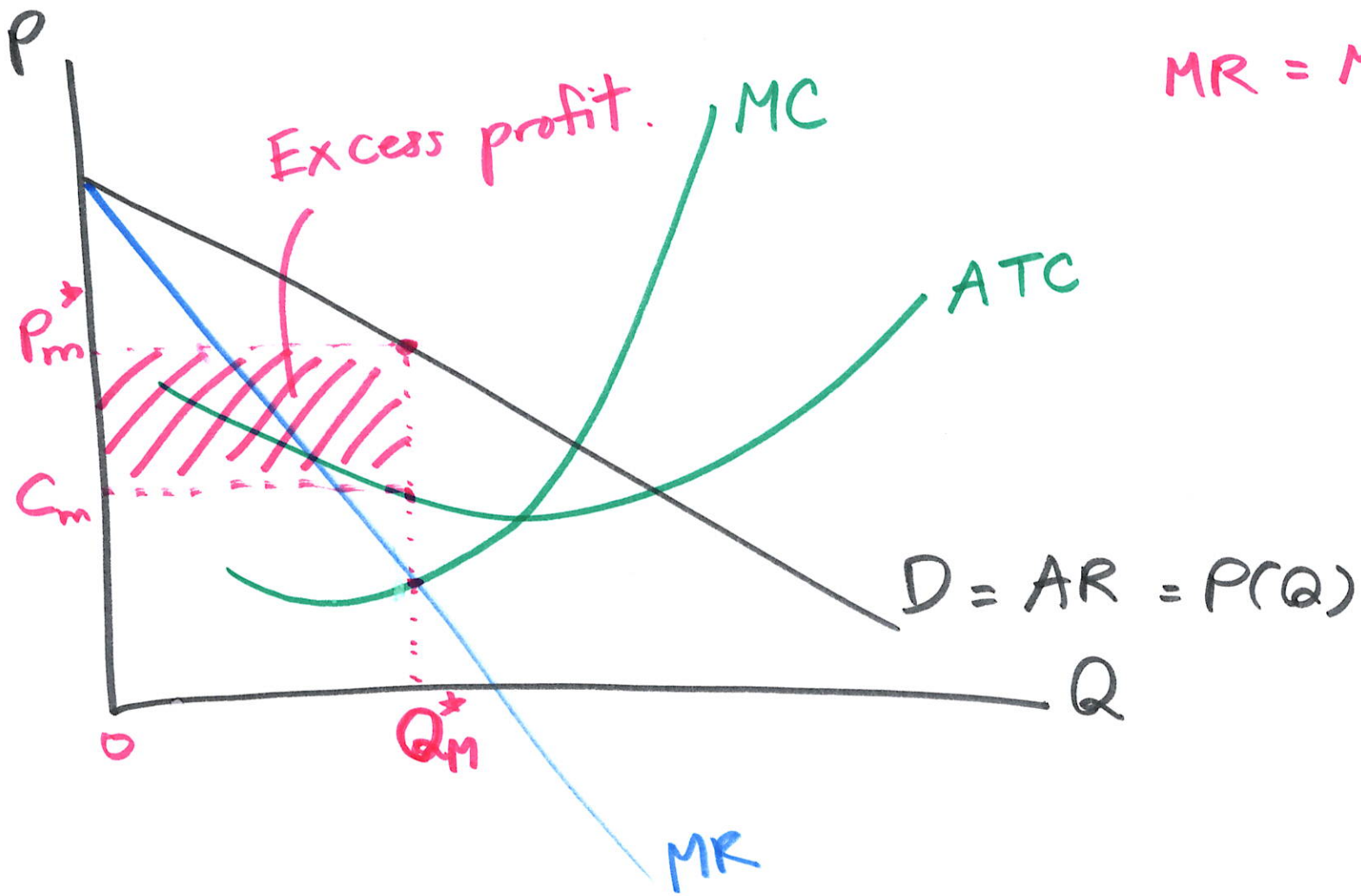
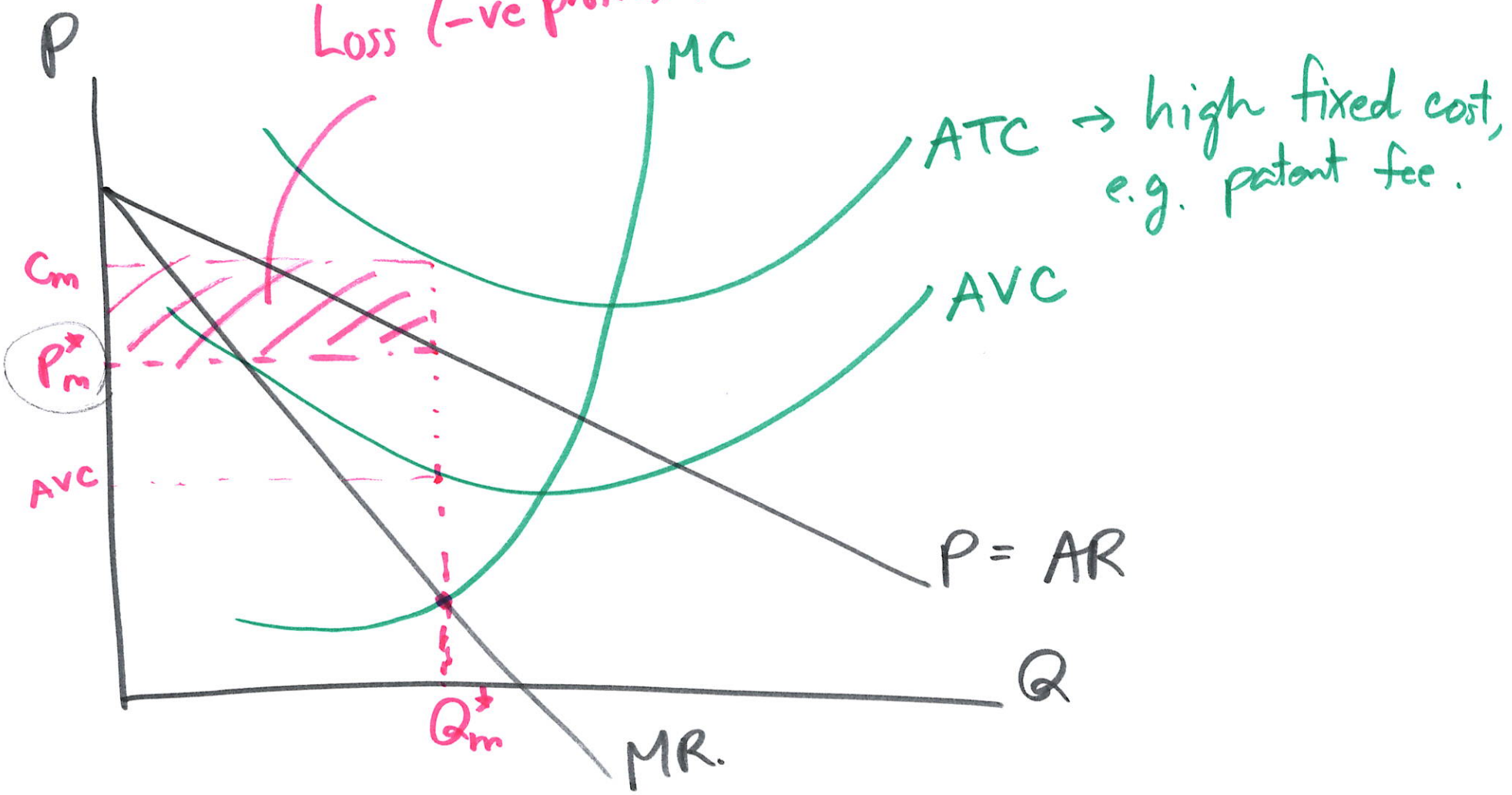
Review: Monopoly in SR.



Π-max:

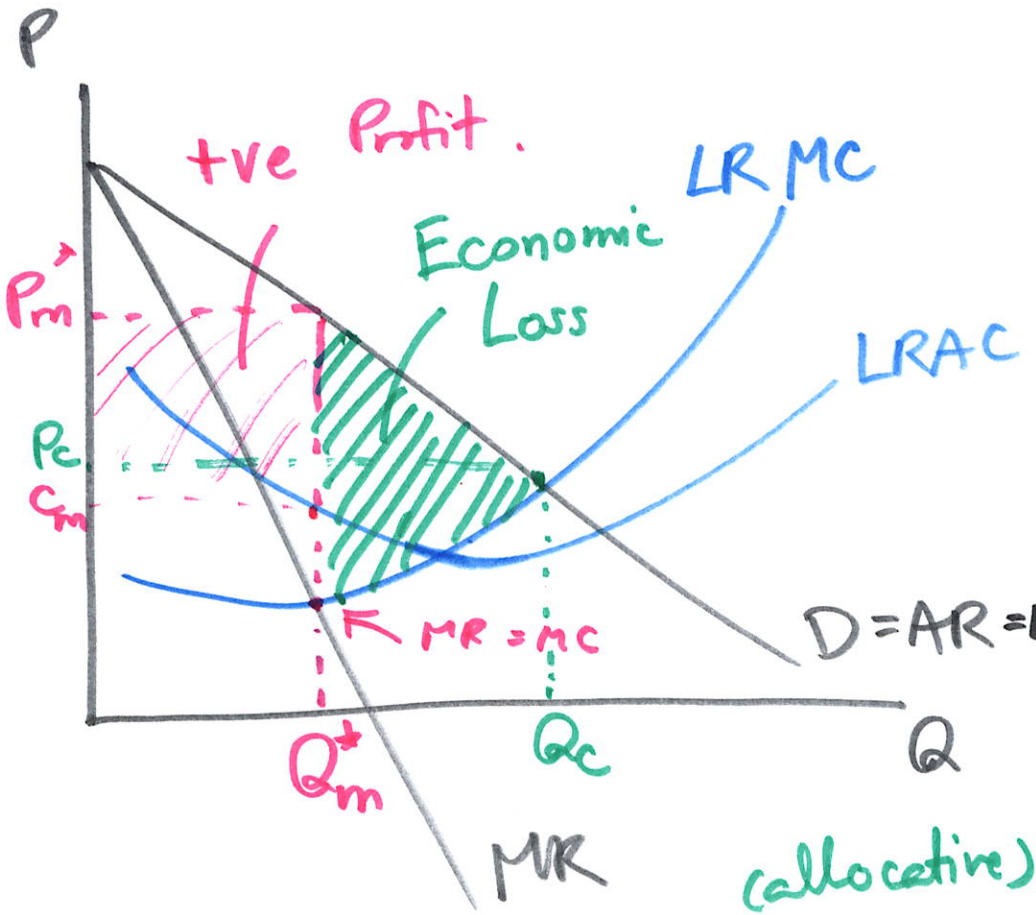
MR = MC

SR : Firm still stays in the market as long as $P_m^* > AVC$.



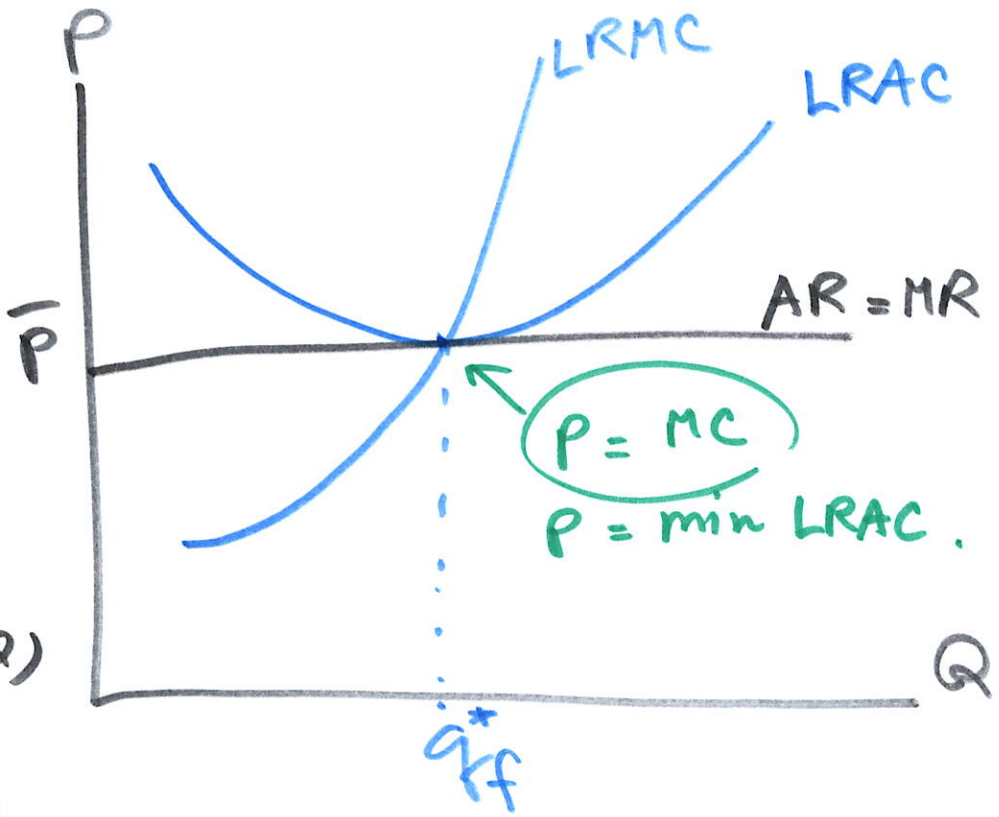
Long-run Eqm.

Monopolist



→ At Q_m^*, there is economic inefficiency. (allocative)

Perfectly Competitive Firm



⇒ Normal profit. ($\pi = 0$)

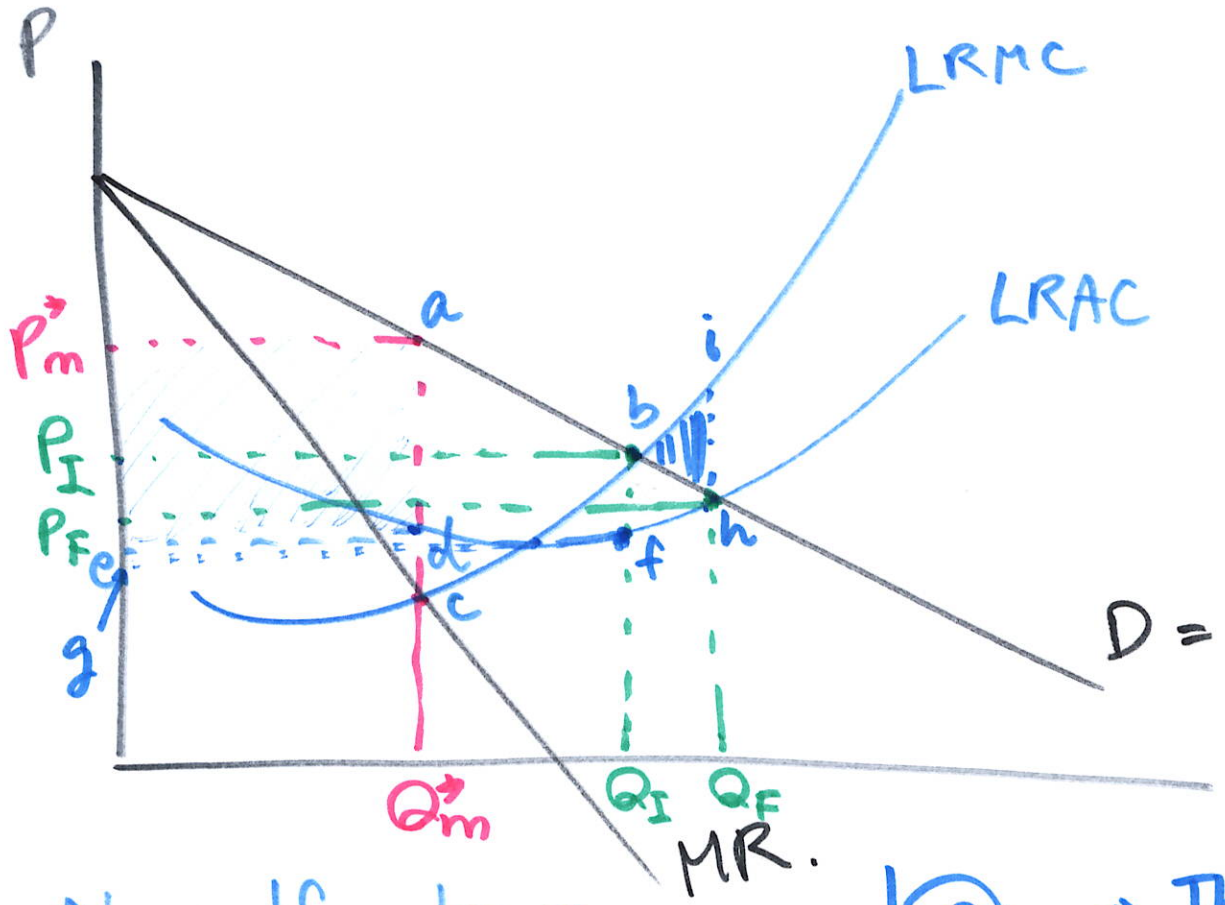
→ P = MC ⇒ No DWL

Regulated Monopoly

P_I is @ $P = LRMC$

P_F is @ $P = LRAC$

Case 1: $P_I > P_F$



Without regulation ($P = P_m^*$)

→ DWL = Area(abc)

→ $\pi_m = \square P_m^* ade > 0$

P_I

→ Q_I

→ No welfare loss ($P = MC$)

→ $\pi_m^I = \square P_I bfg > 0$.

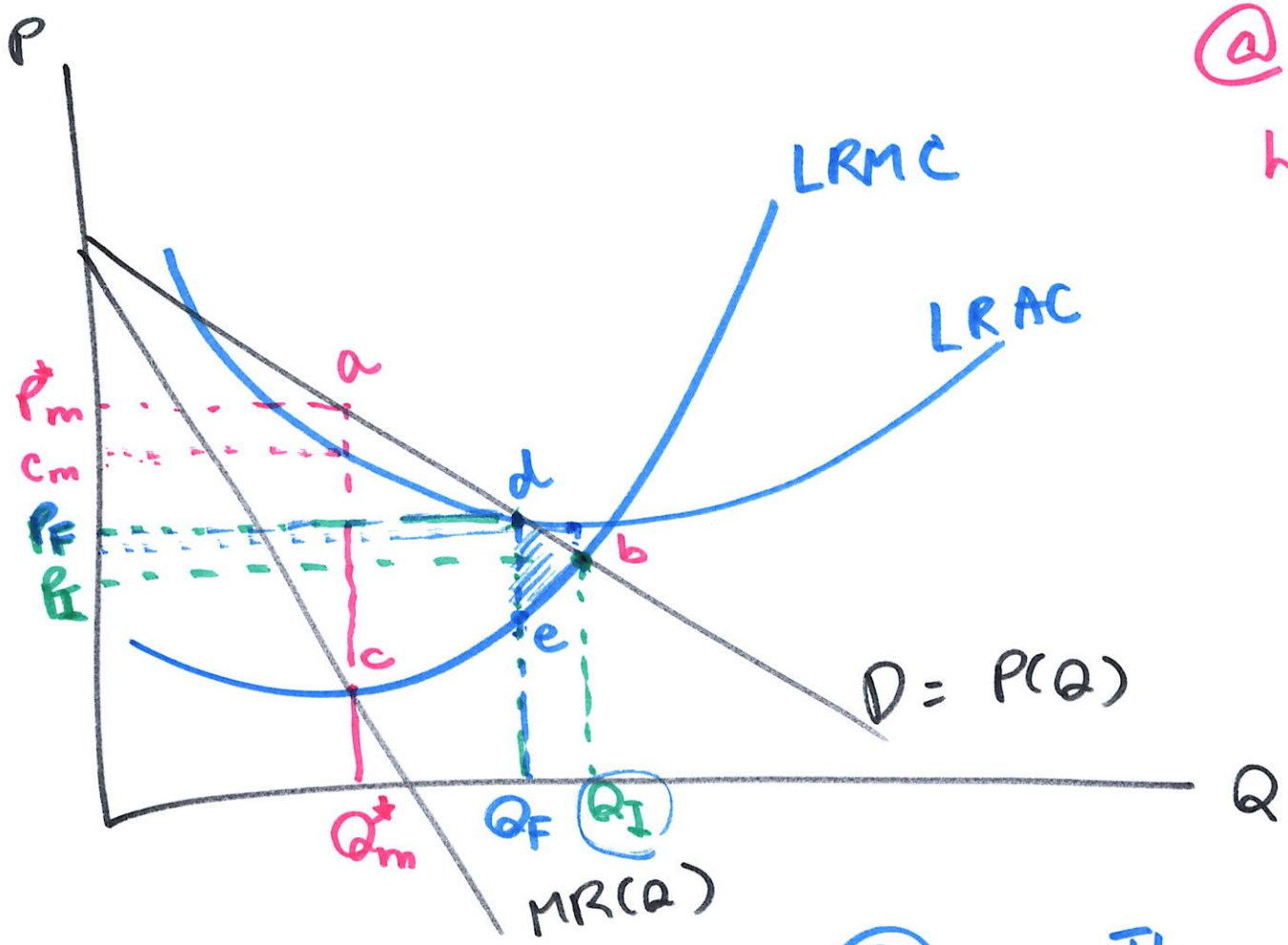
P_F

→ Q_F

⇒ There is welfare loss b/c $MC > P_F$ (Δbih)

⇒ $\pi_m^F = 0$.

Case 2 : $P_F > P_I$ where $P_I = LRMC$; $P_F = LRAC$



@ (P_m^*, Q_m^*)

Welfare loss = area (abc).

P_I ⇒ No welfare loss

$\to Q_I$ ⇒ $\pi_m^I < 0$

P_F ⇒ There is welfare loss (Area (dbe))

$\to Q_F$

⇒ $\pi_m^F = 0$