

Table: Effects of Vertical Integration

	Monopoly of ME				
	All Markets Competitive	Fixed Proportions		Variable Proportions	
		Not Integrated	Integrated	Not Integrated	Integrated
Price, p	2	6	6	5.63	6
Quantity, Q	8	4	4	4.37	4
Consumer Surplus	32	8	8	9.55	8
Profits to Owner of E	0	16	16	10.75	16
Deadweight Loss from Monopoly Pricing	0	8	8	6.59	8
Loss from Inefficient Production	0	0	0	5.11	0
E	8	4	4	1.55	0
L	8	4	4	12.30	4
m	1	5	1	7.93	1

Inverse demand function: $p = 10 - Q$
 Factor costs: $w = c = 1$
 Fixed-proportions production function: $Q = \min(L, M)$
 Variable-proportions production function: $Q = L^{1/2} E^{1/2}$

$m \neq e$
 $m < e$
 $m = e$

$13.85 - 0.74 = 13.11$
 $E = 1.55 + L = 12.30 - 5.11 = 7.19$
 $4.37 \cdot 2 = 8.74$

$8 - 6.59 = +1.41$
 LOSS FROM INEFFICIENT PRODUCTION