Q & A (regarding the final exam)

Question 1:

To Aj. Wanwiphang

From **Practice Problems for vertical integration and vertical restraints, problem 1, further practice.** I got w=970-4q1-2q2 for cournot firm1 and w=970-4q2-2q1 for cournot firm2. Should I sum them up to find demand faced by a wheel monopoly?

Answer :

You first have to solve for q1 and q2 together just like when you solve for q1 and q2 in a Cournot question (substitute q1 into q2 and q2 into q1). Then, you will get q1 and q2 in terms of marginal cost (in this case, w) only. Then, sum the quantity up to get total demand. Finally, rearrange the demand so that you have "w = ...". This would be the (inverse) demand faced by the wheel monopoly.

Question 2:

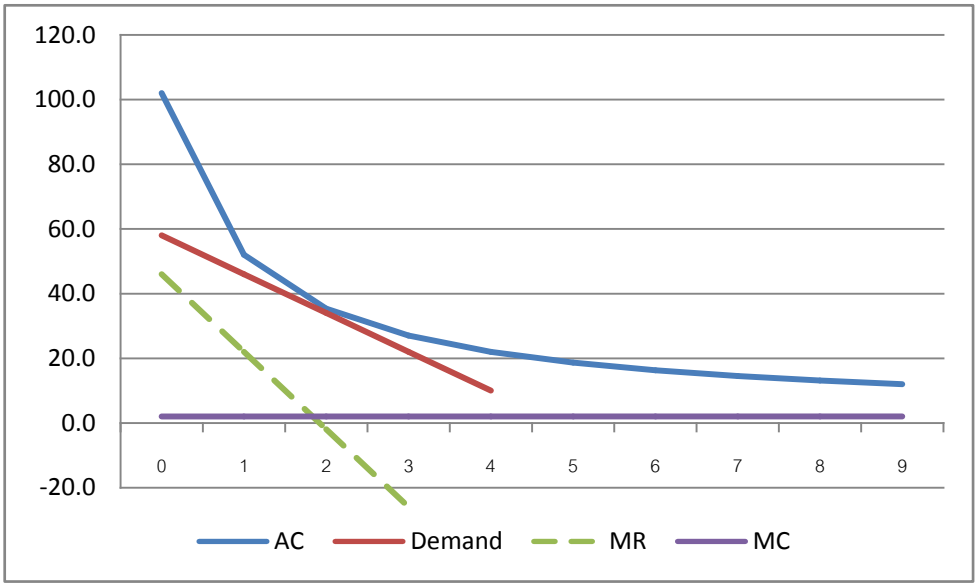
Ajarn ka in product differentiation problem question1, actually i know the answer that it is the same for both situations as i learned in class but i dont know how to prove it even only prug in number as in brief solution but i am still confused how to do it ka? Please help me T T

Answer:

For this one, it might be easier to try to proof the situation graphically. First, try to find the average cost curve by assuming some numbers, e.g. F = 100, MC = 2. Then, calculate AC for each Q. For example:

Q	F	MC	AC
0	100	2	-
1	100	2	102.0
2	100	2	52.0
3	100	2	35.3
4	100	2	27.0
5	100	2	22.0
6	100	2	18.7
7	100	2	16.3
8	100	2	14.5
9	100	2	13.1
10	100	2	12.0

Then, draw a proportional graph of the AC curve and find a demand curve that just touches the AC line. You will see that this tangent point is also the solution to the profit-maximizing problem (MC = MR). This is because when AC just touches the demand curve, the best that the firm can do is to charge at P=AC. Otherwise, it would make a negative profit. Thus, setting P=AC when demand tangents to the AC curve is also a profit-maximizing behavior.



Question 3:

Aj yui kaa I have some question on patent presentation kaa--I'm not sure that I copy from the class with the correct word or not. For eliminating patents slide20 I write that some consumers with the wtp > cost would not be able to consume. If it correct can u explain to me for this sentence ka?

Answer:

the entire sentence is:
"Because patents give monopoly power (market power), it creates deadweight loss (and thus economics inefficiency). This means, some consumers with.. “Willingness to pay > Cost” would not be able to consume."

This is just to say that the deadweight loss is created when price is marked too high. (higher than marginal cost). So, if this is the case, some consumers whose willingness-to-pay is higher than marginal cost (but lower than price) would not buy.

This situation is called inefficiency because, in fact, the marginal cost is lower than the consumer's willingess-to-pay. So, if that consumer gets to buy, there would be an additional positive surplus to the society. However, the high monopoly price makes such consumer unable to buy.