Chapter 11: Strategic Behavior (Suggested Solution)

Problem 1

This problem very similar to the in-class exercise. Except for mc of the downstream monopoly is non-zero.

Problem 2 (from Chapter 21 Problem 2 (Carlton and Perloff))

If feasible, the government could regulate the price set by both monopolistic firms to equal marginal cost.

Problem 3 (from Chapter 21 Problem 4 (Carlton and Perloff))

It is possible that, from the manufacturer's point of view, the dealers in the network have too much monopoly power, in the sense that they set a higher price resulting in lower sales than the manufacturer would prefer. It may then be optimal for the manufacturer to tolerate or even promote gray market sales, in order to reduce the dealer's monopoly power and thereby indirectly reduce its price.