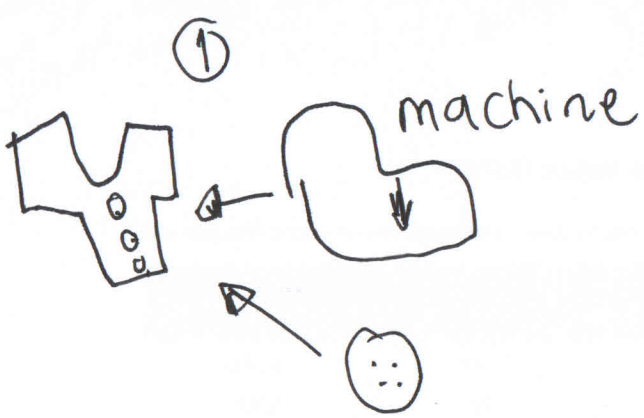

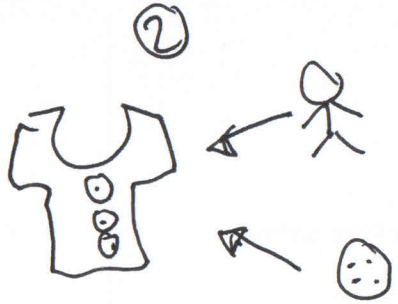

machine → monopoly

button → competitive.

sewing machine & buttons are complementary products.

Originally, factories use labor to sew buttons.

The labor cost is 1¢ per button.

↳ IF the factory were to replace labor with any other method, the highest cost that they're willing to pay is 1¢ per button.

Suppose Firm 1 ⇒ sew # 10,000 button
Firm 2 ⇒ sew 100 button

if $MC_{machine} = 0$ → how to price the machine to max profit?

$MC_{button} = 5¢$

→ Give the machine for free and sell button that only workes with that machine for 6¢ (5¢ + 1¢)

cost

opportunity cost for using labor.

	no machine	with machine
Firm 1	pays $10,000 \times 0.05 = \$500$ for buttons pays $10,000 \times 0.01 = \$100$ for labor Total ⇒ \$600	pays ∅ for machine pays $10,000 \times 0.06 = \$600$ machine company earns \$100 because it costs $10,000 \times 0.05 = 500\$$ for button
Firm 2	pays $100 \times 0.05 = \$5$ pays $100 \times 0.01 = \$1$ For labor Total \$6	pay $100 \times 0.06 = \$6$ machine company earns \$1 because it costs $100 \times 0.05 = \$5$ for buttons. But firm earns \$6. So, profit = $6 - 5 = 1\$$