

Summary of ‘Monopoly with incomplete information’

This research focuses on the monopolized market where the principal-agent relationship is constrained by the asymmetric information, especially from the adverse selection, the principal and the agent cannot monitor each other's actions. The research also concludes that under particular assumptions or situations, the monopolist can draw various optimal incentive schemes according to that certain assumption. Researcher concentrated on the constructing the sorting mechanism to earn the highest monopolist's profit through the price discrimination with the quantity discounts, the monopoly price with the differences product quality, and the trading products through the choice of auction. The researcher explained by using the nonlinear pricing equation with the graph, they also analyze the optimal point of the self-selection constraints from the consumer and the optimal selling strategy with the quantity discounts from fundamental characteristics, the quality pricing from bundling also considered.

To emphasize the profit-maximizing strategy, the seller has to extract the highest possible consumer surplus and offer the price schedule to the buyer where the buyer has no negotiation power, but with the asymmetric information, the seller cannot observe the consumer's preferences to extract all of the surplus. The agent, or in this case, the consumer plays the noncooperative game. The researchers stated 2 crucial assumptions for sellers to succeed. The first assumption is assuming that the buyer has no income effects, this requires that the marginal utility of higher quality is as high as the consumers with higher levels of the parameter that captured the different preferences. The second assumption commonly works on the adverse selection constraint which is that the demand curve can be explained by the variation of the single parameter. The sellers captured the higher return with the kinked pricing schedule since the seller cannot sort the buyers completely and the buyer's indifference curve tells the buyer's satisfaction to the seller. The kinked pricing schedule generates higher profit from the type of buyer that has higher value of the single parameter.

Reference

Maskin, E., & Riley, J. (1984). "Monopoly with Incomplete Information". *The RAND Journal of Economics*, 15(2), 171-196. Retrieved from <http://www.jstor.org/stable/2555674>