

In-Class Exercise (Please bring to class on Friday 12.10.2012)

1. Referring to our Aluminum and Steel example, now suppose Aluminum is a **complementary** product with car paints in the automobile industry. If **car paints are sold in a perfectly competitive** market, do you think the Aluminum monopoly would have an incentive to tie-in Aluminum with car paints to increase its profit? Why or why not?

2. Referring to our Garment example, suppose there are 3 companies. The first company needs to sew 100,000 buttons, the second company needs to sew 10,000 buttons, the third company needs to sew 1,000 buttons. Suppose buttons are sold in a competitive market at price = $mc = 5$ cents each. Suppose the labor cost of sewing 1 button is 1 cent each. If a sewing machine can replace labor, answer the following questions:
 - a. How much would each company be willing to pay for a sewing machine?
company 1:
company 2:
company 3:
 - b. Suppose the sewing machine monopoly can do requirement tie-in and sell buttons along with its machine, what should be the price per 1 button for the sewing machine monopoly to extract all the willingness to pay from each garment company?
 - c. Now, if you sell buttons at the price stated in part b., would the company be willing to pay any additional fee on the sewing machine?
 - d. If the cost of producing 1 sewing machine is 150 dollars, do you think the sewing machine monopoly would go sell its machine to company 1?