

Econ HW: Ch 13: Monopoly

1. The United States Postal Service has a monopoly on non-urgent First Class Mail and the exclusive right to put mail in private mailboxes.
Pfizer Inc. makes LIPITOR, a prescription drug that lowers cholesterol.
Cox Communications is the sole provider of cable television service in some parts of San Diego.

- Substitutes for the U.S. Postal Service include _____. Substitutes for LIPITOR include_____.
- FedEx an UPS; exercise and other statin drugs such as Zocor

A **Substitute** is a good that can be used in place of another good

- Substitutes for Cox Communications include_____.
- Satellite TV services
- The United States Postal Service has _____ barrier to entry. Pfizer has_____ barrier to entry.
- A legal; a legal

A **Legal Barrier to Entry** creates a legal monopoly: a market in which competition and entry are restricted by the granting of a public franchise, a government license, patent, or copyright

- Cox Communications has a _____ barrier to entry regarding the entry of other cable companies into the market.
- Natural
- The monopolies which profit from price discrimination are_____.
- Only the United State Postal Service

When a firm practices **Price Discrimination**, it sells different units of a good or service for different prices

2. In a natural monopoly, the firm _____.

→ Can supply the entire market at a lower cost than two or more firms can

A **Natural Barrier to Entry** creates a natural monopoly: a market in which economies of scale enable one firm to supply the entire market at the lowest possible cost

3. The following statements give some information about seven markets.

1. Coca-Cola cuts its price below that of Pepsi-Cola in an attempt to increase its market share.

2. A single firm, protected by a barrier to entry, produces a personal service that has no close substitutes.

3. A barrier to entry exists, but the good has some close substitutes.

4. A firm offers discounts to students and seniors.

5. A firm can sell any quantity it chooses at the going price.

6. The government issues Nike an exclusive license to produce golf balls.

7. A firm experiences economies of scale even when it produces the quantity that meets the entire market demand.
- A monopoly might arise in the markets described in _____.
 - Statements 5,6, and 7
4. A single-price monopoly maximizes profit by producing the quantity at which_____.
- Marginal cost equals marginal revenue
- A **Single-Price Monopoly** maximizes profit by producing the quantity at which marginal cost equals marginal revenue
- *If Marginal Revenue is greater than marginal cost, profit will increase by producing one more unit
 - *If marginal cost is greater than marginal revenue, profit will increase by producing one less unit
 - *Only when marginal revenue equals marginal cost does the monopoly maximize profit
5. Sam's Surfboards is the sole renter of surfboards on Big Wave Island.
- If marginal revenue is positive at the actual number of surfboard rentals made each hour, then _____.
 - the demand for surfboard rentals is elastic
6. A monopoly _____.
- Never produces an output in the inelastic range of the market demand because it could charge a higher price, produce smaller quantity, and increase its profit
7. The amount of consumer surplus that is transferred from the consumer to the monopoly equals _____.
- the monopoly price minus the competitive price all multiplied by the monopoly quantity
8. A single-price monopoly is _____ because _____ at the quantity produced.
- inefficient; marginal social benefit exceeds marginal social cost
9. Rent seeking is the attempt to_____.
- capture consumer surplus, producer surplus, or economic profit
 - Rent seeking _____.
 - increases deadweight loss above the original monopoly deadweight loss, but the monopoly continues to produce the same inefficient quantity
10. Price discrimination increases a monopoly's economic profit by_____.
- capturing consumer surplus
11. A perfect price discriminating monopoly produces _____.
- the same quantity of output as a perfectly competitive market

12. When a monopoly that produces a service practices perfect price discrimination,
_____.
→ consumer surplus is zero