

## Handout 8

### 1 Customer Feedback

- **PLEASE FILL OUT THE EVALUATION!** <sup>^</sup> \_\_\_\_\_ <sup>^</sup>
- On UCI EEE (access link in your Email)

### 2 EconLive and Announcements

- Fill out the section's Tumblr page invitation form via my website.
- Due 3/15 5:00 p.m (Next Friday)
- Try to tell a story.
- Register ProctorU **BEFORE** 3/11 (Next Monday)

### 3 Price Determination (Recall last discussion)

- Short-run:  $P = MC$
- Long-run:  $P = \min\{ATC\}$  (lowest point on the ATC curve)

### 4 Monopoly

- $\exists$  barriers to entry: other firms cannot enter the market. This may occur due to
  1. A single firm owns a key resource (exclusive ownership of resources).
  2. The government gives a single firm the exclusive right to produce the good.
  3. Natural monopoly: a firm can cover the market at lower ATC than others (economies of scale).
- The only firm in the market that sells product without close substitutes (differentiated products).
- A price maker  $\implies$  A monopoly does not have a supply curve.
- The firm has market power: the ability to influence market price<sup>1</sup>.
- Profit maximization:  $MR = MC$
- $P^M > MR = MC$
- Profit ( $\pi$ ) =  $TR - TC$
- **Road Map:**
  1. Monopoly optimizes by profit maximization  $\implies$  determine the quantity to produce:  $Q^M$ .
  2. This  $Q^M$  will then determine the market price  $P^M$  by the market demand (D curve).
- Distort market efficiency:  $Q^M < Q^*$ ,  $P^M > P^*$  where  $(P^*, Q^*)$  is the competitive market equilibrium price and quantity.
- Monopoly results in a deadweight loss (DWL).
- Government may use antitrust laws to promote competition.

---

<sup>1</sup> A competitive firm has no market power.

## 5 Price Discrimination

- Selling the same good at different prices to different buyers.
- **First-degree** price discrimination
  - charges a different price for every unit consumed
  - **set  $P$  = consumer's willingness to pay**
  - perfect price Discrimination
  - firm will gain the entire market surplus
- **Second-degree** price discrimination
  - charging a **different price for different quantities**
  - nonlinear pricing
  - quantity discount
  - e.g. *Costco* bulk purchases discount
- **Third-degree** price discrimination
  - charging a **different price to different consumer groups**
  - market segmentation of price discrimination
  - e.g. *Movie Alita: Battle Angel* has adult and child tickets
  - e.g. Student discounts (*StudentUniverse* Flights)

## 6 Monopoly Graphic illustration

