

APPLIED ECONOMICS FOR MANAGERS, SESSION 6

I. REVIEW

A. PROFIT-MAXIMIZATION & COMPETITION

1. NECESSARY CONDITION FOR PROFIT MAXIMIZATION:
MARGINAL REVENUE = MARGINAL COST

2. COMPETITION: $P = MR = MC$

B. SUPPLY CURVE FOR THE COMPETITIVE INDUSTRY

1. $P = MC$ FOR EACH FIRM

1. AT ANY GIVEN P , DETERMINE Q THAT LEADS TO MC EQUAL TO THAT PRICE AT EACH FIRM

2. ADD OUTPUT OF EACH FIRM TOGETHER TO GET TOTAL INDUSTRY OUTPUT AT THAT PRICE

3. REPEAT FOR OTHER PRICE LEVELS

C. IF $P > AC$ ECONOMIC PROFIT (LOSS) AND ENTRY (EXIT)

D. THE LONG-RUN COMPETITIVE OUTCOME

1. $P_X = MC_X$

2. $P_X = AC_X$

3. $P_X = \frac{MU_X}{MU_Y} P_Y$ (CONSUMER OPTIMUM $\Rightarrow \frac{MU_X}{P_X} = \frac{MU_Y}{P_Y}$)

B. EFFICIENCY VS. DISTRIBUTION

II. INTRODUCTION TO IMPERFECT COMPETITION

A. LET'S PLAY CARDS!

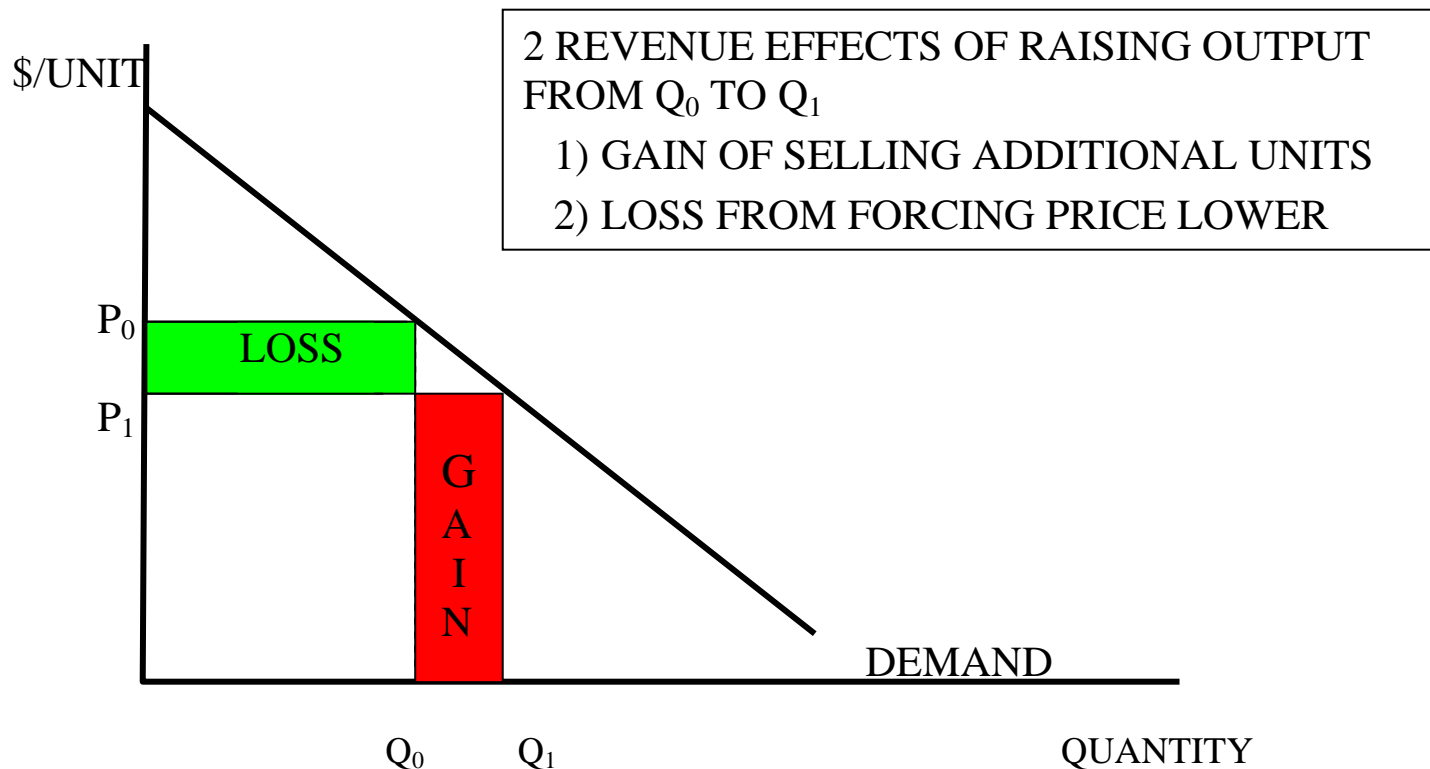
B. A LESSON FROM LINEVILLE

C. REVENUE, MARGINAL REVENUE, & PRICE FOR A MONOPOLY

1. REVENUE = PQ

2. BUT P DEPENDS ON Q , E.G., $P = 150 - 2Q$

3. TWO EFFECTS OF A MONOPOY RAISING PRODUCTION

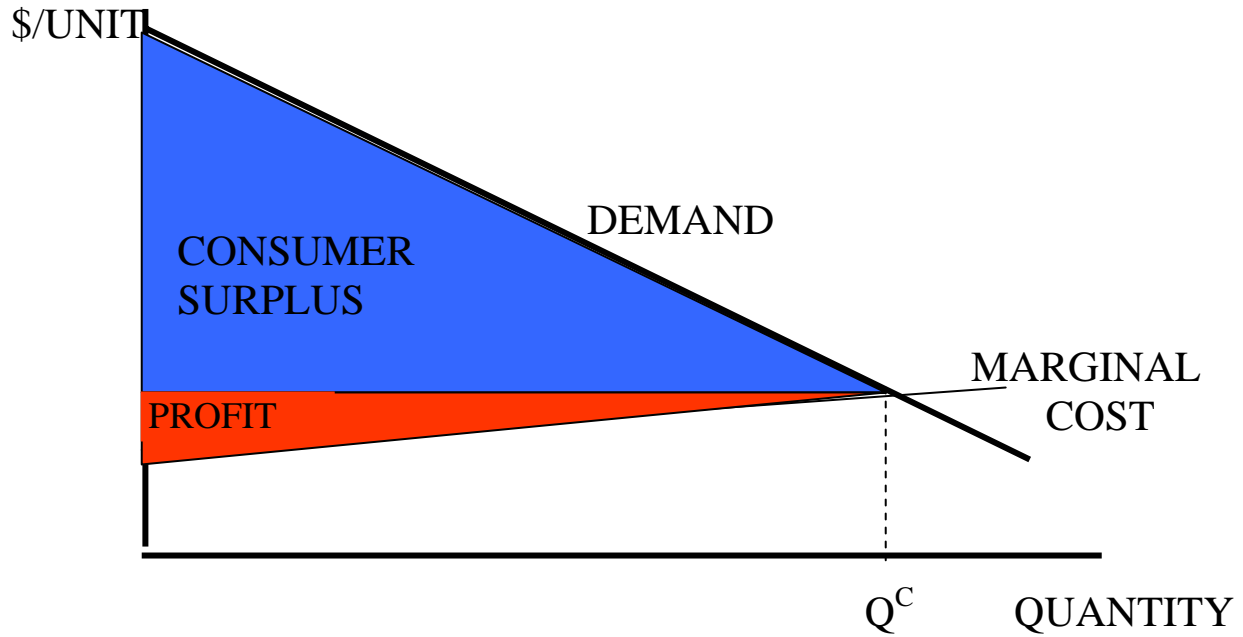


D. THE "TWICE AS STEEP" RULE

IF : $P = A - BQ$, e.g., $P = 100 - 2Q$

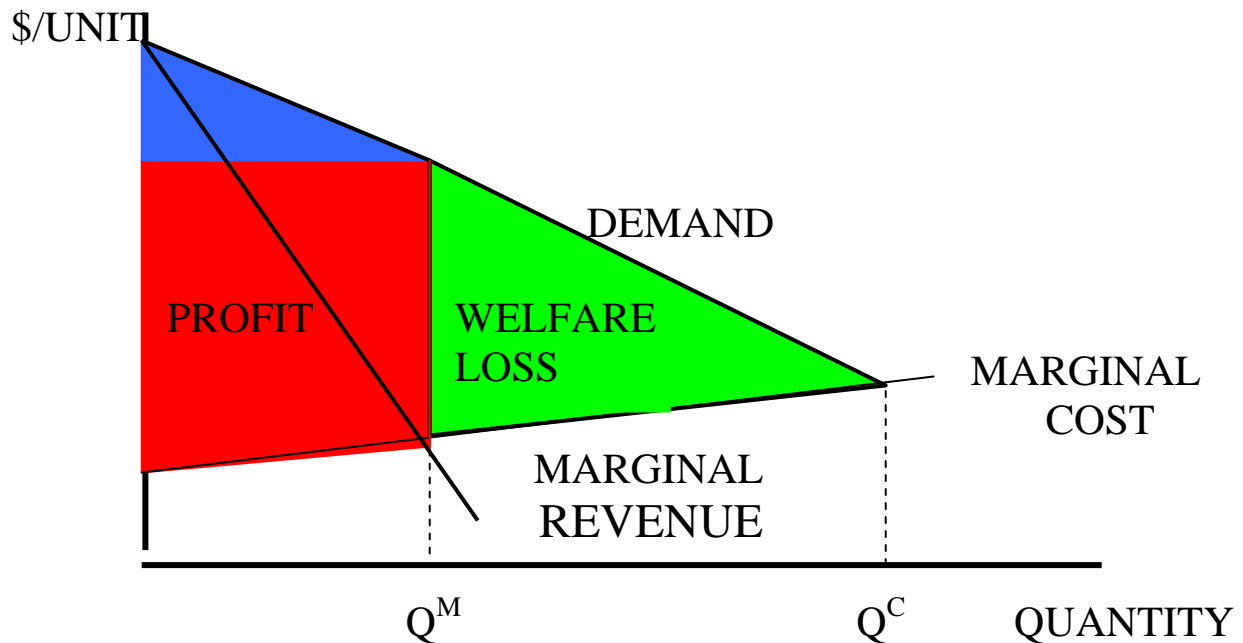
THEN: $MR = A - 2BQ$, e.g., $MR = 100 - 2Q$

COMPETITIVE VS. MONOPOLY



D. THE DEADWEIGHT LOSS OF MONOPOLY

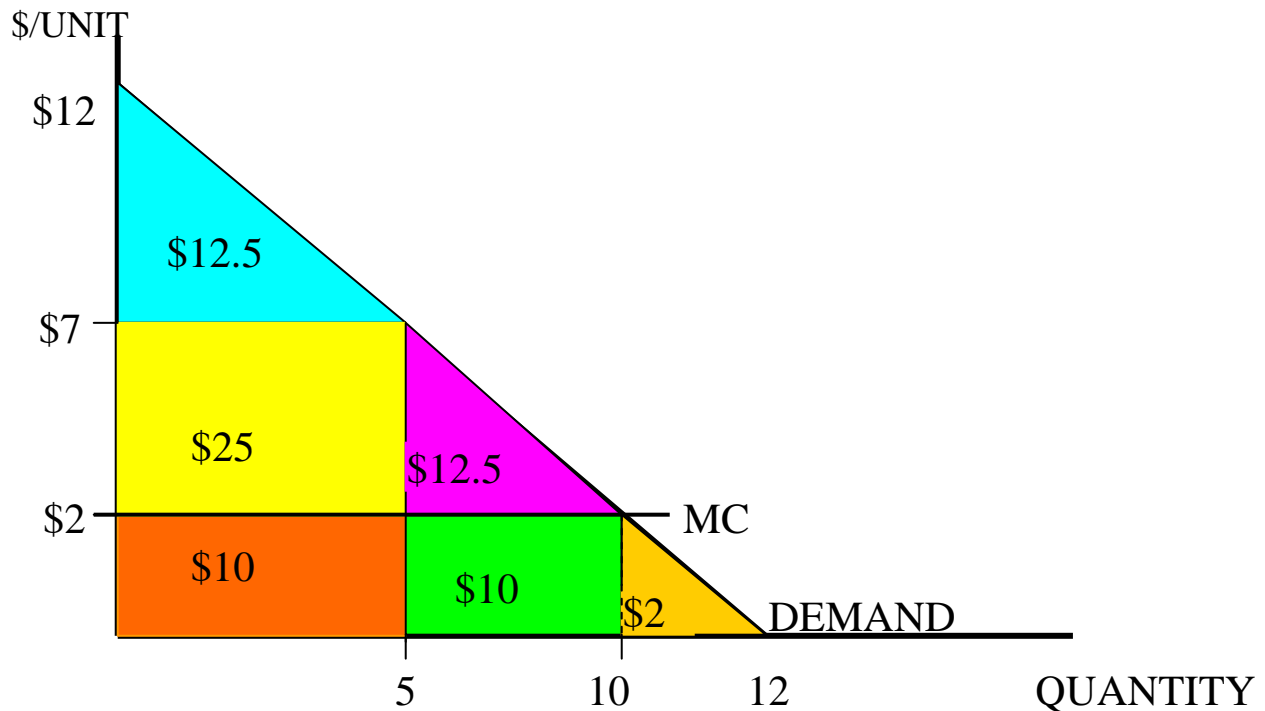
1. SOCIETY'S PROBLEM
2. THE MONOPOLIST'S PROBLEM



CONVENTIONAL MONOPOLY PRICING
vs
A TWO-PART TARIFF
AT NOSNOWBA VALLEY SKI RESORT

COST OF EACH RIDE UP THE MOUNTAIN IS \$2

TYPICAL SKIER'S DEMAND FOR RIDES: $P = 12 - Q$
 $MR = 12 - 2Q$



CONVENTIONAL PRICING: CHARGE FOR INDIVIDUAL RIDES

$P = \$7$; #RIDES = 5; AND PROFIT = \$25

STRICT TWO-PART PRICING: PARTICIPATION FEE = \$50
PER RIDE FEE = \$2 = MC

#RIDES = 10; PROFIT = \$50

APPROXIMATE TWO-PART PRICING: LIFT TICKET = \$72
PER RIDE FEE = 0

#RIDES = 12; PROFIT = \$48