Chapter 15

Monopoly Production and Price Decisions

1. Downward Sloping Demand Curve
   a. Must lower price to sell greater Q, sale of additional unit effects TR (P\times Q)
      i. Output effect: Q is higher
      ii. Price Effects: P is lower (on the marginal unit and on the units it was already selling)
      iii. MR declines as Q increases, MR is always less than price

2. Maximizes Profit
   a. MR=MC
      i. As Q increases, MR decreases and MC increases
      ii. At low levels of output, MR>MC, increase in Q increases profit
      iii. At high levels of output, MC>MR, decrease of output increase profit
      iv. In competitive markets, P=MC, Monopoly, P>MR=MC

3. Welfare Cost of Monopoly
   a. To maximize TS, would have to MC intersects Demand Curve, but monopolist produces less than socially efficient Q of output
   b. When Monopolist charges price that exceeds MC, = DWL

4. Price Discrimination
   a. Rational Strategy b/c to maximize profit they charge close to individual WTP
   b. Only possible if they can separate based on WTP
      i. Arbitrage- buying a good at a low price market, selling to high price market, PD is not possible
   c. Can raise economic welfare b/c output increases beyond that which would result under monopoly pricing, additional surplus (reduced DWL) is received by the producer, not consumer