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 (PxQ)*
        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*