

1. ____/40	4. ____/5
2. ____/15	5. ____/5
3. ____/10	6. ____/20
Total: ____/95	

Name: _____

Team: _____

Unit 4: Imperfect Competition Problem Set #4

In considering the market behavior of a monopolist, students identify and examine the sources of monopoly power and understand the relationship between the monopolist's demand curve and its marginal revenue curve. Students learn how the monopoly's total revenue changes along its demand curve as price varies. Having learned the behavior of monopolies and perfect competition, students should compare a monopolist's price, level of output, and profit with those of a firm operating in a perfectly competitive market. By paying particular attention to the concept of allocative efficiency, students learn how and why competitive firms achieve an efficient allocation of resources, whereas monopolists do not. The concept of deadweight loss is a good device to show the efficiency loss due to monopoly. The model of price discrimination provides another dimension of monopoly behavior that students need to learn and understand.

1. Practice FRQs (____/40)
2. Complete the following worksheets:
 - a. "Regulating Monopolies" (____/5)
 - b. "A Quick Review of Perfect Competition and Monopoly" (____/5)
 - c. Market Structures Venn Diagram (____5)
3. Use the chart to complete the following:
 - a. Explain why demand equals marginal revenue for perfectly competitive firms but marginal revenue is less than the demand curve for all imperfectly competitive firms. Use a SPECIFIC numerical example from the chart in your explanation. (____/5)
 - b. On a large graph, PLOT the demand and marginal revenue curves. On a new graph below, plot the Total Revenue. Use the total revenue test to EXPLAIN the elastic and inelastic range of the demand curve. Be sure to identify the elastic and inelastic ranges. (____/5)

Price	Quantity Demanded	Total Revenue	Marginal Revenue
\$11.00	0		
10	1		
9	2		
8	3		
7	4		
6	5		
5	6		
4	7		
3	8		
2	9		

4. Monopolistic Competition

Draw a monopolistically competitive firm in long-run equilibrium. Explain why the firm is not allocatively efficient or productively efficiency. Define excess capacity and identify it on the graph (____/5)

5. Oligopolies

Complete the following questions:

		City Wheels	
		Maintain Fare	Lower Fare
Easy Ride	Maintain Fare	\$150, \$180	\$130, \$120
	Lower Fare	\$120, \$130	\$140, \$110

- If Easy Ride chooses to maintain its current fare, which strategy is better for City Wheels? Explain.
- Is there a dominant strategy for Easy Ride? Explain.
- Assume that the companies must make their decisions simultaneously and do not cooperate. What will be the daily profit for each firm?
- If these two firms could cooperate, which strategy would each firm choose?
- Suppose that the local government decides to provide a subsidy of \$40 per day to the bus companies. However, only a company that agrees to lower its fare is eligible to receive the subsidy. Draw a new payoff matrix to reflect the change in government policy.

6. Unit Study Guides

Complete the following study guides:

- Unit 3: Production Costs and Perfect Competition (____/10)
- Unit 4: Imperfect Competition (____/10)