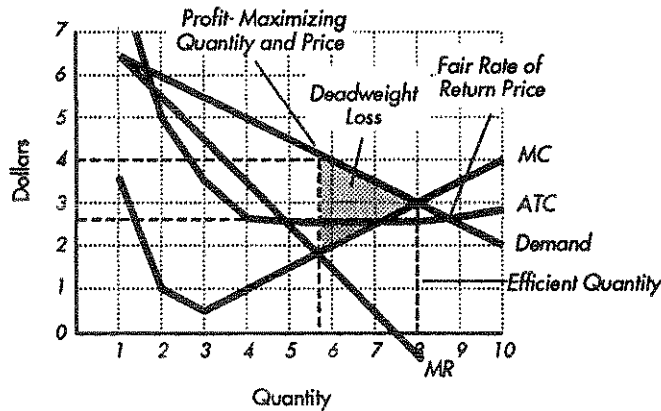


Section 3: Profit Maximization

1. marginal revenue; marginal cost; demand curve
2.
 - a.

Burgers	TC	Price	TR	MR	AFC	AVC	ATC	MC
1	\$ 9.00	\$6.50	\$ 6.50	\$ 6.50	\$5.50	\$3.50	\$9.00	\$3.50
2	10.00	6.00	12.00	5.50	2.75	2.25	5.00	1.00
3	10.50	5.50	16.50	4.50	1.83	1.67	3.50	.50
4	11.50	5.00	20.00	3.50	1.38	1.50	2.88	1.00
5	13.00	4.50	22.50	2.50	1.10	1.50	2.60	1.50
6	15.00	4.00	24.00	1.50	.92	1.58	2.50	2.00
7	17.50	3.50	24.50	.50	.79	1.71	2.50	2.50
8	20.50	3.00	24.00	-.50	.69	1.88	2.56	3.00
9	24.00	2.50	22.50	-1.50	.61	2.06	2.67	3.50
10	28.00	2.00	20.00	-2.50	.55	2.25	2.80	4.00

- b. 5 (The fifth burger is the last one whose *MR* is greater than or equal to *MC*.); \$4.50 (At this price, consumers want to buy the 5 burgers Joe wants to sell.)
- c. \$9.50 (Profit = $TR - TC = \$22.50 - \$13 = \$9.50$)
- d.



- e. 8 (The efficient quantity is the quantity where price equals marginal cost.)
- f. about \$2.60 (Joe gets a fair rate of return—a normal profit—when the price is just enough to cover all of his costs; that is, when $P = ATC$. On the graph, it's where the demand curve crosses the *ATC* curve.)
- g. See d.

Section 4: Market Power and Price Discrimination

1. Price discrimination; prices
2. lower

3. be a price setter
separate customers by price elasticity
prevent resale of the product
4. Perfect price discrimination

Section 5: Comparison of Perfect Competition and Monopoly

1. higher; smaller
2. larger; smaller
3. consumer
4. decrease; increase

Thinking About and Applying Monopoly

I. Monopoly and Innovation: The Two Faces of Patents

1. If successful, the innovation will generate monopoly profits, at least for a while. The possibility of monopoly profits, over and above a normal profit, makes risk-taking worthwhile.
2. Yes. Like most monopolies, patent monopolies lead to higher prices. When the demand for a patented product is very inelastic, like the demand for life-saving drugs, the price can be driven very high.
3. Looking at other people's patents can help a company develop similar but not identical products, providing competition for the patented product. Many innovators prefer not to patent their innovations, reasoning that it is better not to give their competitors too much information.

II. Revisiting Price Discrimination in Airline Fares

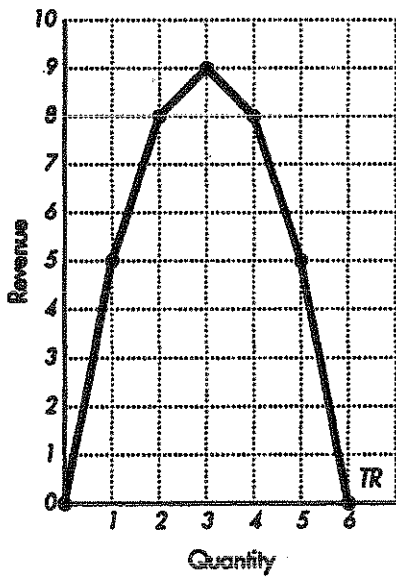
1. vacation (Vacation travelers don't mind the restrictions of 14-day advance purchase and a Saturday stayover, but many business travelers do.)
2. For price discrimination to be effective, three conditions are required: The firm cannot be a price taker, the firm must be able to separate customers according to price elasticity, and the firm must be able to prevent resale of the product. As oligopolists, airlines have some control over fares. The restrictions on advance purchase and Saturday stayover effectively separate vacation travelers from many business travelers. Finally, resale is discouraged both by putting individuals' names on the tickets and by making discount tickets nonrefundable.
3. vacation (If business travelers had a higher elasticity, airlines would have cut the price of their tickets.)
4. Elastic. Because airlines reduced the price for vacation travelers, they must think demand is elastic.

3.

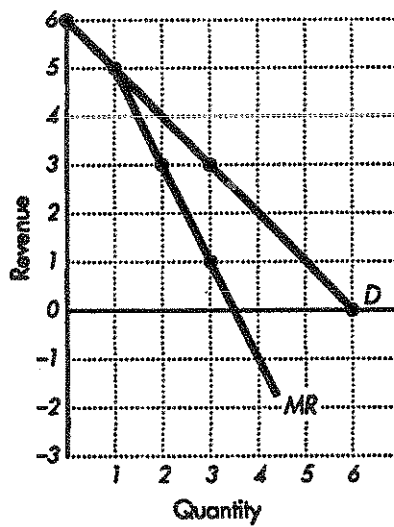
a.

Price	Quantity	TR	MR
\$6	0	\$0	
5	1	5	\$5
4	2	8	3
3	3	9	1
2	4	8	-1
1	5	5	-3
0	6	0	-5

(a) Total Revenue



(b) Demand and Marginal Revenue



- b. from \$6 down to \$3 (In this range, cutting price increases total revenue.)
- c. from \$0 up to \$3 (In this range, cutting price decreases total revenue.)
- d. \$3 (Demand is unit-elastic in the middle of a demand curve. *Note:* If these ideas don't seem familiar, refer back to the chapter on elasticity.)

4. more than; equal to

ANSWERS

Quick-Check Quiz

Section 1: The Market Structure of Monopoly

1. e; 2. c; 3. b

If you missed any of these questions, you should go back and review Section 1 in Chapter 25.

Section 2: The Demand Curve Facing a Monopoly Firm

1. e; 2. d; 3. a

If you missed any of these questions, you should go back and review Section 2 in Chapter 25.

Section 3: Profit Maximization

1. a; 2. c; 3. b; 4. b; 5. d

If you missed any of these questions, you should go back and review Section 3 in Chapter 25.

Section 4: Market Power and Price Discrimination

1. e; 2. a; 3. c

If you missed any of these questions, you should go back and review Section 4 in, Chapter 25.

Section 5: Comparison of Perfect Competition and Monopoly

1. c; 2. a; 3. b

If you missed either of these questions, you should go back and review Section 5 in, Chapter 25.

Practice Questions and Problems

Section 1: The Market Structure of Monopoly

1. only; no close
2. barriers to entry
3. impedes; economic profits
4. set prices
5. local
6. regulated
7. natural

Section 2: The Demand Curve Facing a Monopoly Firm

1. industry
2. elastic; unit-elastic; inelastic