Market Structure and Power: Problems

1. True or False? If there is only one producer in a market, then it must have monopoly power.

2. True or False? An agent with market power always restricts quantity in order to drive up the price.

3. True or False? In a perfectly competitive market, the price equals the firm's marginal cost of production, not the consumer's marginal utility of consumption.

Consider the market for Fruity Pebbles.

Table 1: Market for Fruity Pebbles

Units	Total Utility	Total Cost
1	\$30	\$2
2	\$55	\$5
3	\$75	\$10
4	\$93	\$17
5	\$108	\$27
6	\$120	\$39
7	\$130	\$49
8	\$138	\$62
9	\$143	\$77
10	\$145	\$100

4. Assuming perfect competition, what is the equilibrium price, equilibrium quantity, consumer surplus, and producer surplus.

5. Now assume that one firm has a monopoly on cereal and that households must buy their cereal from them. What price will the monopolist set? What will be the equilibrium quantity? How do consumer and producer surplus compare to #3?

6. Now suppose that the monopolist also has the ability to price discriminate by charging two different prices. Assume that the firm can identify each customers' willingness to pay. Can you design a pair of prices that would allow them to increase their profits from #4? Note that thi need not be the profit maximizing pair of prices, only one that increases profits compared to charging a single price.

7. Now instead suppose that the demander is a monopsonist while producers have no market power (A giant monster consumes all the world's Fruity Pebbles and nobody else may enjoy

them). What price will the monopolist set? What will be the equilibrium quantity? How do consumer and producer surplus compare to #3.

8. True or False? Anti-trust enforcement always leads to more deadweight loss.

9. True or False? A labor market starts by being perfectly competitive. If a labor union then starts exerting market power, then the amount of deadweight loss increases.

10. True or False. If a labor union starts exerting market power in a labor market, then the amount of deadweight loss always increases.

11. Patents allow inventors to have the exclusive rights to produce their inventions. Discuss the tradeoffs involved with granting inventors this type of market power.

From the textbook

12. What is a natural monopoly? provide an example.

13. True or False? All monopolies are illegal in the United States?

14. How is monopolistic competition different from perfect competition?