

ECO 260
Homework 2
Solutions

1. Market 1:

$$MR_1 = 100 - 2q_1$$

$$MR_1 = MC$$

$$100 - 2q_1 = 20$$

$$q_1 = 40$$

$$P_1 = 100 - q_1$$

$$P_1 = 100 - 40 = 60$$

$$P_1 = 60$$

Market 2:

$$MR_2 = 50 - q_2$$

$$MR_2 = MC$$

$$50 - q_2 = 20$$

$$q_2 = 30$$

$$P_2 = 50 - .5q_2$$

$$P_2 = 50 - .5(30) = 35$$

$$P_2 = 35$$

If monopolist can't price discriminate:

$$Q = q_1 + q_2$$

$$Q = (100 - P_1) + (100 - 2P_2)$$

$$Q = 200 - 3P$$

$$P = 200/3 - Q/3$$

$$MR = 200/3 - 2Q/3$$

$$MR = MC$$

$$200/3 - 2Q/3 = 20$$

$$-2Q/3 = -140/3$$

$$Q = 70$$

$$P = 200/3 - Q/3 = 200/3 - 70/3$$

$$P = 130/3 = 43.33$$

2.

1st Degree Price discriminator sets $P = MC$ so,

$$50 - 7q = 1$$

$$q = 7$$

and

$$P = 1$$

Maximum price for admission is equal to consumer surplus so,

$$CS = .5(50 - 1)(7) = 171.5$$

$$\text{Total profit for monopolist} = CS = 171.5$$