26.1 Simple Monopoly Pricing

1. Simple monopoly pricing refers to a monopolist charging all consumers *(the same price / different prices)* for all units of a good.

2. A monopolist faces a *(downward-sloping / horizontal)* demand curve, which is the same as the market demand curve.

3. Study the following diagram.

(a) The above monopolist adopts uniform pricing to maximise its profit. Explain how the monopolist will set a price to maximise its profit. Indicate the output (Q_M) and the price (P_M) in the above diagram.

The monopolist will produce at the output level where marginal revenue equals marginal cost. It will then set the price according to the demand curve.

(b) At Q_m, marginal benefit is *(higher / lower)* than marginal cost.

(c) Indicate the deadweight loss in the above diagram.

4. The following table shows the comparison between monopoly under simple monopoly pricing and perfect competition.

	Monopoly under simple monopoly pricing	**Perfect competition**
Output	The monopoly output is *(greater than / smaller than / equal to)* the output in a perfectly competitive market	
Price	The monopoly price is *(higher than / lower than / equal to)* the price in a perfectly competitive market	
Marginal revenue	Marginal revenue is *(greater than / smaller than / equal to)* price	Marginal revenue is *(greater than / smaller than / equal to)* price
Deadweight loss	*(exists / does not exist)*	*(exists / does not exist)*

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26.2 Price Discrimination

5. Price discrimination is a pricing behaviour whereby a seller charges different prices for the same good or service to different customers, in which the differences cannot be explained by differences in costs.

6. Match each type of price discrimination with the correct definition. Write the letter in the space provided.

Type		Definition
A. First degree price discrimination	A	A seller charges different buyers different prices depending on their demand for the good or service.
B. Second degree price discrimination	C	Different prices are charged in different market segments with different elasticities of demand for the same good produced at the same cost.
C. Third degree price discrimination	B	A seller charges different prices for different quantities of a good or service sold.

7. Does each of the following cases constitute price discrimination? Explain.

Case	Yes/No	Explanation
(a) In a restaurant, students are charged a lower price than adults for the same set lunch.	Yes	Different groups of customers (students and adults) are charged different prices for the same good produced at the same cost.
(b) Customers of a fitness centre pay less for the same membership during the promotion period.	No	All consumers face the same pricing arrangement and there is no market segmentation.
(c) Banks charge small companies higher interest rates on loans than big companies.	No	The risk of lending to small companies may be higher, so the cost of lending to small companies may be higher.
(h) Twelve cans of coke packed together are sold at a lower average price than a single can.	Yes/No	When consumers buy different quantities of coke, they will pay different average prices (price per can) for the same good produced at the same cost. / All consumers face the same pricing arrangement and there is no market segmentation.

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