



MobLab
A playground for decisions

Monopoly and Price Discrimination

Production and Pricing

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Active Sessions

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Principles of Microeconomics 21F >

Welcome back! Active Sessions

Monopoly


Principles of Microeconomics 21F

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Monopoly

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Game Instructions

Monopoly


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You have a patent on a new drug. Sell your product to consumers!



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SINGLE MARKET



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Use the + button to increase the amount of product to produce

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Use the trash button to decrease the amount of product to produce

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Profit = (Price - Marginal Cost) x Quantity

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Press Submit to finalize your decision

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Pre-Game Survey

Monopoly

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What would your profit be if you sold 4 pallets?

$(Price - Marginal Cost) * Quantity = (\$7 - \$2) * 4 = \20

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What quantity maximizes profits?

Let's find out!

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Game Time!

Monopoly

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Post-Game Survey

Monopoly

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Compared to the competitive market what happened to price and quantity?

Monopolist P: \$5.00 Monopolist Q: 12

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What quantity maximizes profits?

When marginal revenue equals marginal cost!

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How much profit could be made as a monopolist?

$(Price - Marginal Cost) * Quantity = (\$5 - \$2) * 12 = \36

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Results Discussion
Monopoly

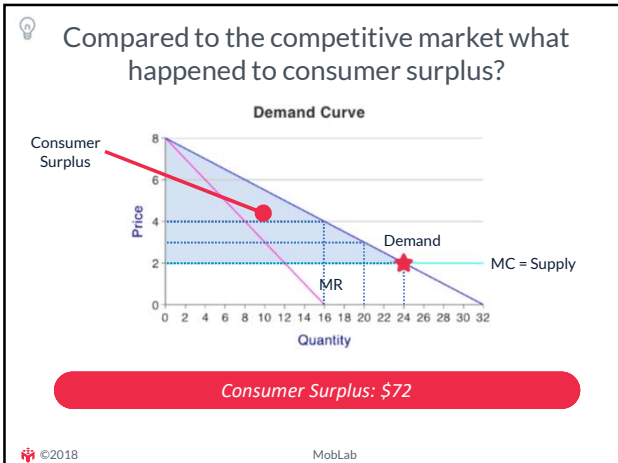
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Concept Review
Monopoly

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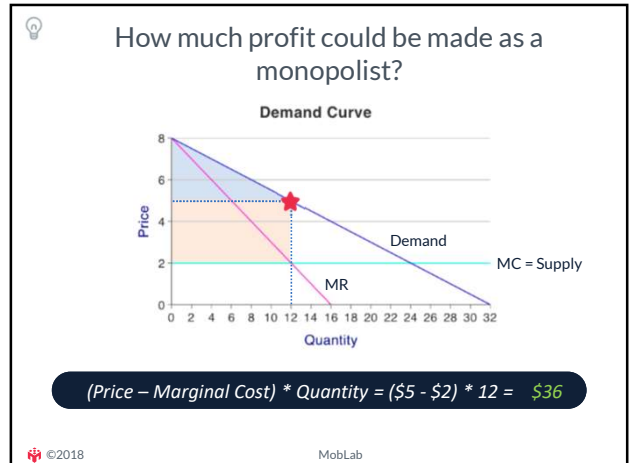
Compared to the competitive market what happened to consumer surplus?



Consumer Surplus: \$72

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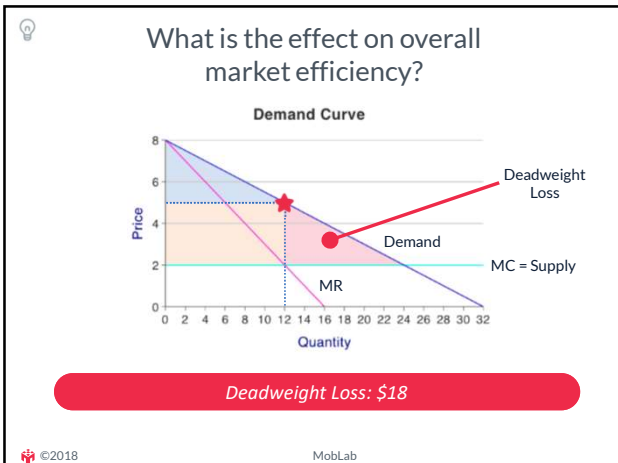
How much profit could be made as a monopolist?



$(Price - Marginal Cost) * Quantity = (\$5 - \$2) * 12 = \36

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What is the effect on overall market efficiency?



Deadweight Loss: \$18

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The different types of monopolies

- **Monopoly over a Resource**
 - DeBeer's owned over 80% of the world's supply of diamonds at one point.
- **Government-Created Monopoly**
 - Patents and Copyrights give creators a monopoly over a product for a determined amount of time.
- **Natural Monopolies**
 - Public Utilities are determined to be able to provide their service to entire market at a lower cost than could two more more firms.

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Price Discrimination

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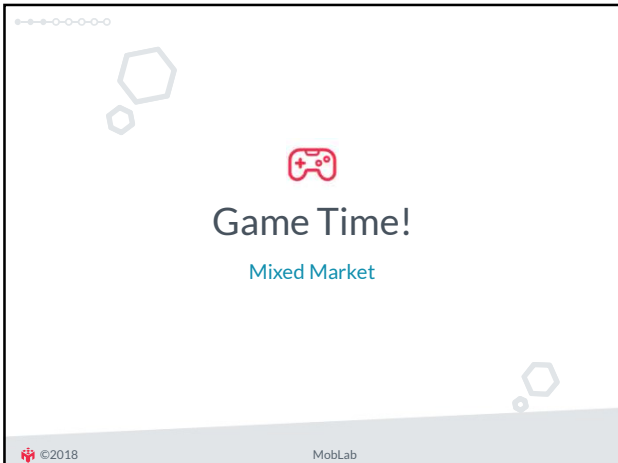
What will happen to Profit and Efficiency?

Let's find out:

- Suppose there are **two types of consumers** for your product. You are **unable** to distinguish between the two.



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Game Time!

Mixed Market

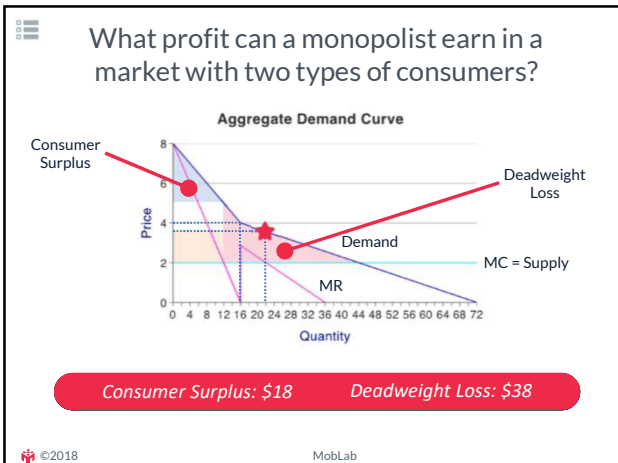
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Post-Game Survey

Mixed Market


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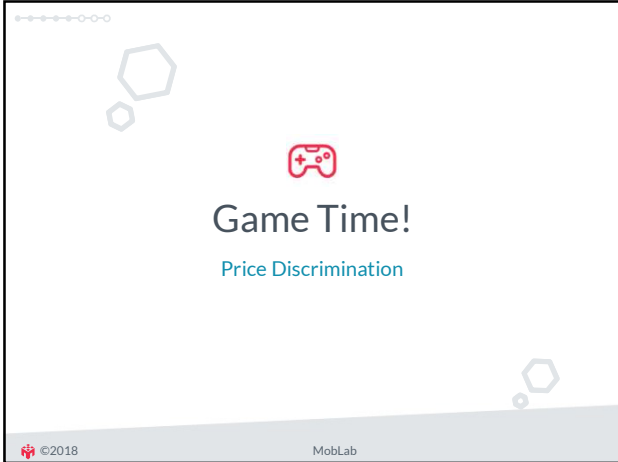
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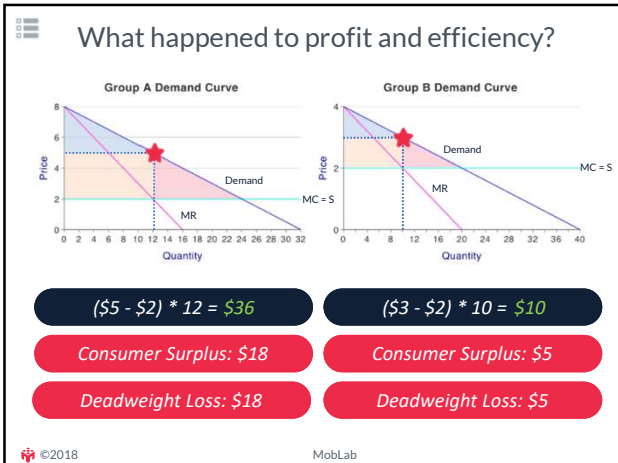
Game Time!
Price Discrimination

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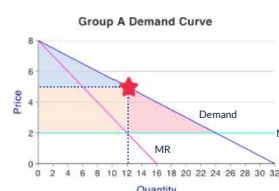
Post-Game Survey
Price Discrimination

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What happened to profit and efficiency?

Group A Demand Curve

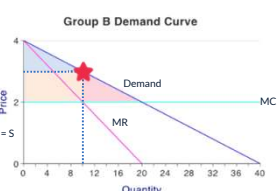


$(\$5 - \$2) * 12 = \$36$

Consumer Surplus: \$18

Deadweight Loss: \$18

Group B Demand Curve

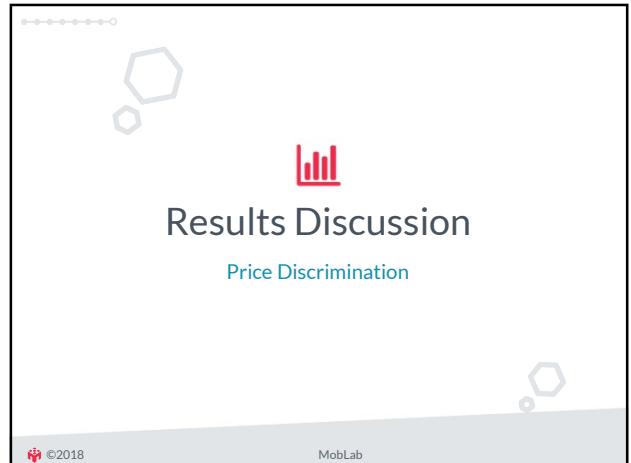


$(\$3 - \$2) * 10 = \$10$

Consumer Surplus: \$5

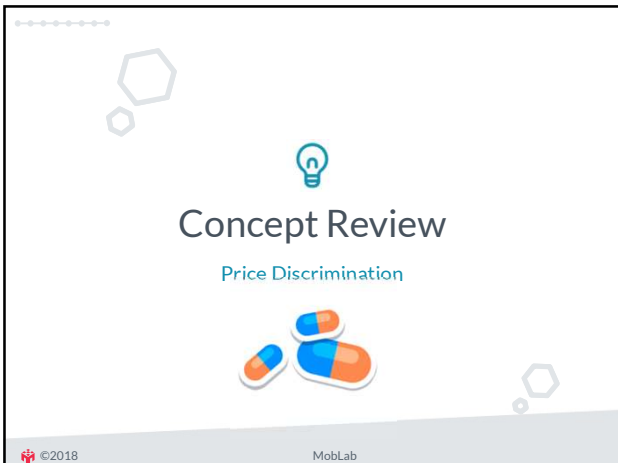
Deadweight Loss: \$5

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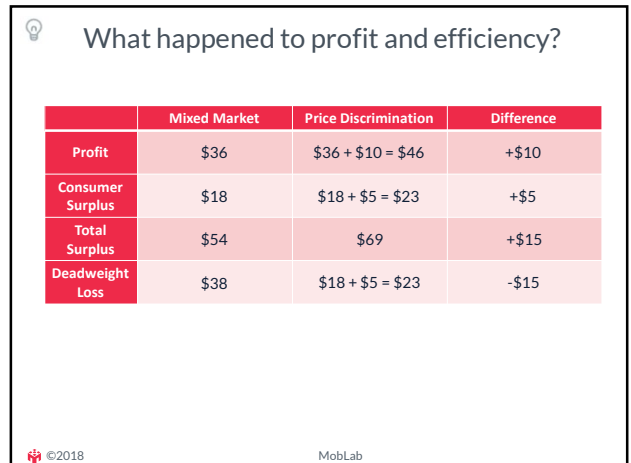
Results Discussion
Price Discrimination

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Concept Review
Price Discrimination

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What happened to profit and efficiency?

	Mixed Market	Price Discrimination	Difference
Profit	\$36	$\$36 + \$10 = \$46$	+\$10
Consumer Surplus	\$18	$\$18 + \$5 = \$23$	+\$5
Total Surplus	\$54	\$69	+\$15
Deadweight Loss	\$38	$\$18 + \$5 = \$23$	-\$15

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Key Takeaways

- *Price Discrimination* is the act of charging different consumers different prices for the same product.
 - Price discrimination can increase a monopolist's profit.
 - Price discrimination can also increase overall efficiency in the market by increasing total (consumer and/or producer) surplus.

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Completed
Price Discrimination

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