

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (20 points) Draw a diagram with an upward-sloping MC and a demand curve for a monopoly. Find how much the monopolist will produce and how much they will charge for two different situations. The first is they cannot discriminate between the customers. The second is they are able to do perfect first degree discrimination. Explain how you found each equilibrium. Which is more efficient from society's point of view? Explain your logic.

2) (25 points) Draw the MC line which is upward sloping. Draw two different demand curves which are not parallel. Find the quantities the firm would sell and the prices charged in the two markets assuming the firm can do third degree price discrimination. Explain how you found them.

3) (10 points) Why do restaurants practice third degree price discrimination but music stores do not?

4) (20 points) Draw the π_T , π_a , and π_s diagram. Explain why each line looks as drawn. Is the peak of π_T at the same quantity as the peak of π_a ? Explain your logic.

5) (25 points) The book describes inter-temporal discrimination for products like books or movies on DVD. However, there is also inter-temporal discrimination for tickets on airplanes. Draw that diagram and explain why the demand curves take the shapes you drew. When do people pay the most for a flight? Explain your logic.