Wilf Csaplar Jr. Economics 304 Homework #2 **Due Wednesday 2/11**

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) (25 points) Draw a diagram with two differently sloped demand curves. Assume these are two separate markets for a monopoly which uses third degree price discrimination. Draw an upward sloping MC curve. Find out how much the firm will sell in each market and what price they will charge in each. Explain how you found your answers.

2) (15 points) Why does bundling work when some people value one good more while others value the other good more, but does not work when people either value both goods a lot or neither good very much?

3A) (15 points) Table 11.5 on Page 425 has prices for pure pricing and for bundling. Explain why they chose each of the six prices in the table.
3B) (5 points) Suppose there was a fifth person whose reservation price for each good was $30. Would that affect the prices in the table or not? Explain your logic.

4) (30 points) Suppose you had the choice of buying a suit, a jacket, or a pair of pants. The suit costs $300/suit. The jacket costs $250/jacket and the pants cost $80/pair. Assume there are no costs of making the clothing. (How illogical is that?) Draw the diagram which has the reservation prices. Determine the areas which will divide the people into four categories. Explain how you found each area and line.

5) (10 points) Explain why a lot of companies give discounts to senior citizens.