

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 10 points. 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) (15 points each) Answer each part in separate paragraphs. For each part, explain why that is necessary for perfect price discrimination.

A) They need to prevent resale of the product.

B) The firm needs to be able to cheaply separate the buyers by their elasticities of demand.

2) (25 points) Draw the ATC/MC/D diagram for a perfectly price discriminating monopolist. Determine how much is produced. Find the producer surplus, consumer surplus, and dead weight loss. Explain how you found each of the areas.

3) (15 points each) Answer each part in separate paragraphs. For each part, explain how that quality is seen in the monopolistically competitive firm's ATC/MC/D diagram. For example, suppose I asked about advertising. If advertising caused the MC curve to slope downward (it does not), then you would say, "advertising causes MC to slope downward because..." The explanation after the word "because" is most of the points.

A) The firms face a highly elastic demand.

B) The products are differentiated.

C) There is easy entrance and exit from the industry. (Hint: Where else have you seen that assumption?)