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## Tutorial Week 11: Chapter 15

### Problems and Applications

01. Suppose that a natural monopolist were required by law to charge average total cost. On a diagram, label the price charged and the deadweight loss to society relative to marginal cost pricing.
02. Suppose the Go-for-it Gas Company has a monopoly on natural gas sales. If the price of electricity increases, what is the change in Go-for-it's profit-maximizing levels of output, price, and profit? Explain in words and with a graph.
03. Larry, Curly and Moe run the only pub in town. Larry wants to sell as many drinks as possible without losing money. Curly wants the pub to bring in as much revenue as possible. Moe wants to make the largest possible profits. Using a single diagram of the pub's demand curve and cost curves, show the price and quantity combinations favoured by each of the three partners. Explain.
04. The Best Computer Company just developed a new computer chip, on which it immediately acquires a patent.
  - a. Draw a diagram that shows the consumer surplus, producer surplus and total surplus in the market for this new chip.
  - b. What happens to these three measures of surplus if the firm can perfectly price discriminate? What is the change in deadweight loss? What transfers occur?

### Questions for Discussion

01. Give an example of a government-created monopoly. Is creating this monopoly necessarily bad public policy? Explain.



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