Critical Thinking Assignment 6

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**Salvatore 12: Discussion Question 7**

**Quantity discounts are not a form of price discrimination because the firm saves on handling large orders. True or false? Explain.**

**Salvatore 12: Discussion Question 8**

**(a) Why are first- and second-degree price discrimination less common than third- degree price discrimination? (b) Are lower airline fares at midweek an example of third-degree price discrimination? (c) Under what conditions would it not be useful to charge different prices in different markets (i. e., practice third-degree price discrimination) even if possible?**

**Salvatore 12: Discussion Question 13**

**What are (a) the advantages and (b) the disadvantages of cost- plus pricing? (c) Why is incremental cost pricing the correct pricing method? Why is full-cost pricing equal to it?**

**Salvatore 12: Problem 5**

**"The Dairy Farm Company, a small producer of milk and cheese, has estimated the quantities of milk and cheese that it can produce with three levels of total expenditures or total costs. These are indicated in the following table. If the price of milk (product A) and the price of cheese (product B) that the firm receives are $ 1 each per unit of the products, draw a figure showing the maximum total profit (p) that the firm can earn at each level of TC and the overall maximum profit that the firm can earn for the three different levels of TC.**



**Salvatore 12: Problem 12**

**(a) Will a monopolist’s total revenue be larger with second- degree price discrimination when the batches on which it charges a uniform price are larger or smaller? Why? (b) How does a two- part tariff differ from bundling?**

**NOTE: You could use figure 12-4 as a reference (p. 506)."**

**Froeb et al 14: IP 14-1**

**Why might Mattel set a much lower contribution margin on its Barbie dolls than on the accessories for the dolls?**

**Froeb et al 14: IP 14-4**

**A manufacturer of microwaves has discovered that male shoppers have little value for micro-waves and attribute almost no extra value to an auto- defrost feature. Female shoppers generally value microwaves more than men and attribute greater value to the auto- defrost feature. There is little additional cost to incorporating an auto-defrost feature. Since men and women cannot be charged different prices for the same product, the manufacturer is considering introducing two dif-ferent models. The manufacturer has determined that men value a simple microwave at $ 70 and one with auto- defrost at $ 80 while women value a simple microwave at $ 80 and one with auto-defrost at $ 150.**

**If there is an equal number of men and women, what pricing strategy will yield the great-est revenue? What if women compromise the bulk of microwave shoppers?**

**Salvatore 13: Discussion Question 8**

**What is the basic difference between using a subsidy to induce producers to install antipollution equipment and a tax on producers who pollute?**

**Salvatore 13: Discussion Question 10**

**Given the difficulties that the regulation of public utilities faces, would it not be better to nationalize public utilities, as some European countries have done? Explain your answer.**

**Salvatore 13: Problem 12**

**Determine whether the Justice Department would challenge a merger between two firms in an industry with 10 equal- sized firms, based on its 1984 Herfindahl- index guidelines only.**

**NOTE: Need to calculate and compare the Herfindahl index before and after the merger.**

**Salvatore 13: Problem 13**

**(Library research) Explain (a) in what way the U. S. trucking industry exemplified the capture theory hypothesis of government regulation prior to the passage of the Motor Carrier Act of 1980 and (b) the result of the passage of the Motor Carrier Act in 1980.**

**NOTE: Use the internet search or other sources to answer this problem**

**Salvatore 13: Problem 15**

**Integrating Problem From the following figure referring to a natural monopolist, indicate (a) the best level of output, price, and profits per unit and in total for the monopolist, (b) the best level of output and price with a lump sum tax that would eliminate all the monopolist’s profits, (c) the best level of output, price, and profits per unit and in total with a $ 3 per unit tax collected from the monopolist, and (d) the best level of output and profit per unit and in total if the government sets the price of the product or service at $10. (e) Which is the best method of controlling monopoly power? Why? (See Figure 13- 5.)

NOTE: (b) Use the following graph for reference. A lump sum tax is a fixed cost. (c)Use the following graph for reference. A $3 per unit tax is a variable cost which will cause AC and MC** to increase by $3.