

Monopoly Profits

Class Activity

DIRECTIONS

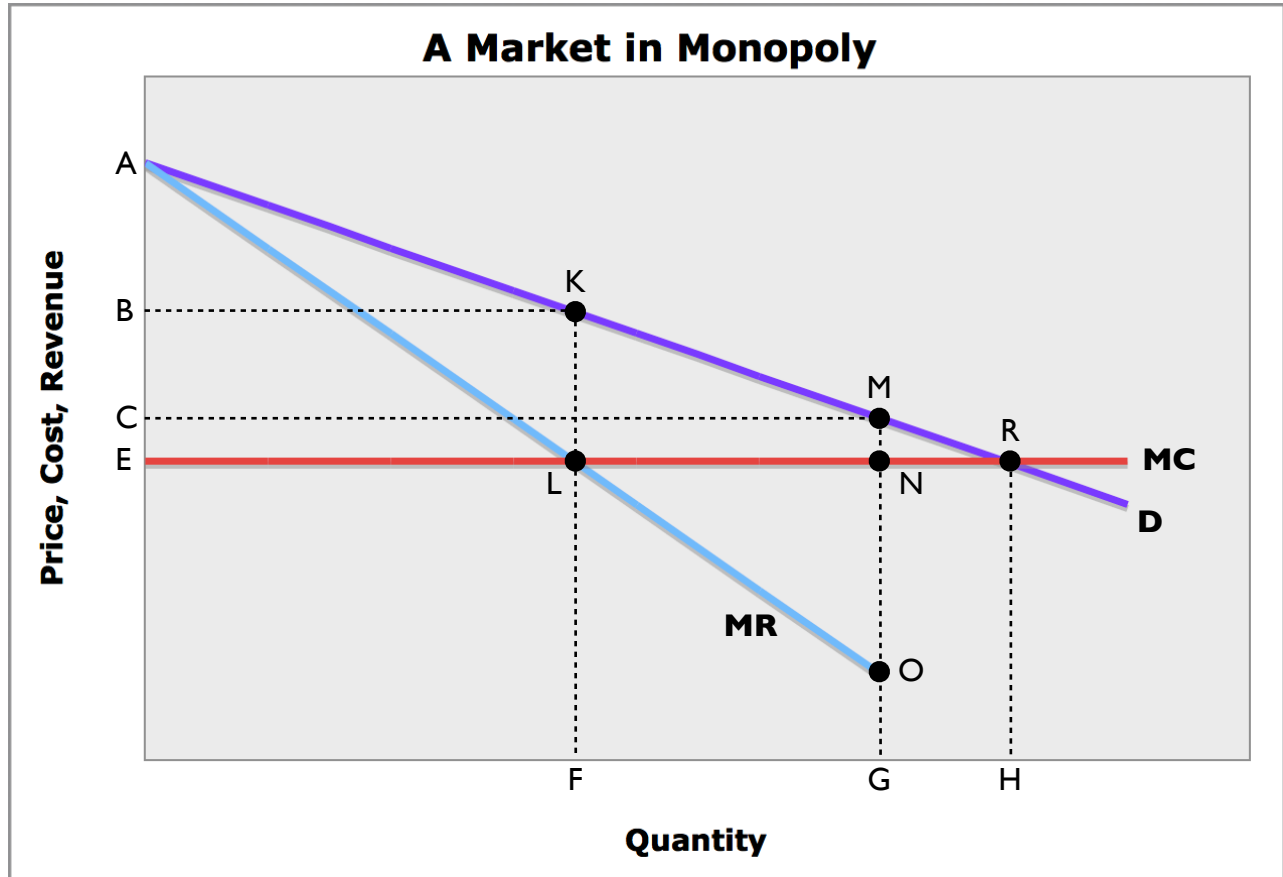
Mark has written an app that allows students to easily keep track of their homework assignments. He is a single-price monopolist and has no fixed costs, but he must pay his Internet service provider \$2 for every download. Use the table below to answer the following questions.

Price	Quantity Demanded	Total Revenue	Marginal Revenue	Marginal Cost	Total Cost	Profit
\$6	0		-	-		
\$5	3					
\$4	9					
\$3	18					
\$2	28					
\$1	42					
\$0	63					

- 1) Calculate the values for the empty cells in the table above.
- 2) If Mark wants to maximize profits, what price should he charge? How many downloads will be sold?
 Price: \$ _____
 Quantity: _____
- 3) If Mark wants to maximize revenue, what price should he charge? How many downloads will be sold?
 Price: \$ _____
 Quantity: _____
- 4) If Mark wants as many students as possible to download his app, what price should he charge? How many downloads will be sold?
 Price: \$ _____
 Quantity: _____

DIRECTIONS

This graph illustrates a market that is controlled by a single-price monopolist. There is no fixed cost, but the values for marginal cost, marginal revenue, and demand are drawn on the graph. Use the labeled points as a reference to answer the following questions.



- 5) If this monopolist wants to maximize profits, what price should he charge? What will the quantity be?
 Price: _____
 Quantity: _____
- 6) Which area reflects the monopolist's profit? _____
- 7) Which area reflects the consumer surplus under monopoly? _____
- 8) Which area reflects the deadweight loss under monopoly? _____
- 9) If this was a perfectly competitive market, what would the price and output levels be?
 Price: _____
 Quantity: _____
- 10) Which area reflects the consumer surplus under perfect competition? _____