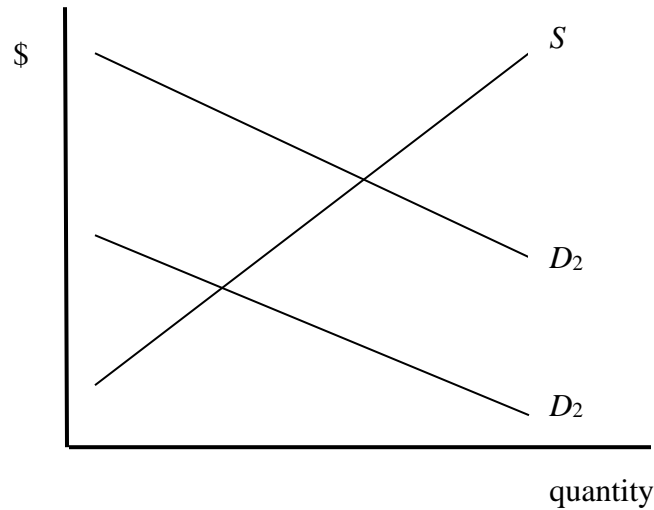
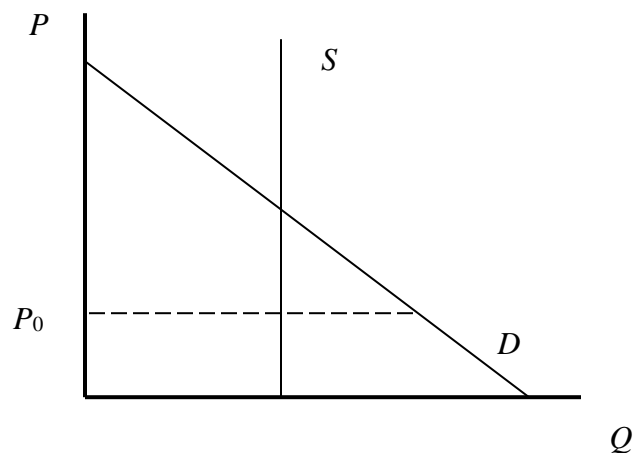


Chapter 10

1. In what ways might monopoly be more beneficial than perfect competition with regard to product safety and environmental protection?
2. In the wake of natural disasters like hurricanes, there is often a spike in the demand for certain necessities like ice. Anti-gouging laws limit price increases in such situations to, say, 20%. Show the effect of such statutes in the following graph, where D_1 and D_2 represent the pre- and post-hurricane demands. Does the law improve efficiency?



3. The graph below shows the market for tickets to a concert with a fixed supply of seats. What is the equilibrium price? Suppose the price is set at P_0 . What will be the consequence? Ticket scalping—the purchase and resale of tickets at a higher price—is illegal in some jurisdictions. What would be the effect of allowing ticket scalping in the current setting? What might the rationale be for making it illegal?



4. Professional sports leagues are largely exempted from anti-trust laws, which allows them to, for example, limit entry of new teams. Can you think of a rationale for this exemption? Is there a difference in the welfare effects of entry in markets for ordinary goods, as opposed to entry of new teams in a sports league?
5. Explain what a natural monopoly is. Why does it present a problem for anti-trust law?
6. In the diagram below, show the competitive output and price, and compare it to the monopoly output and price. What is the economic basis for using anti-trust law to prevent monopoly? Illustrate the gain in the graph.

