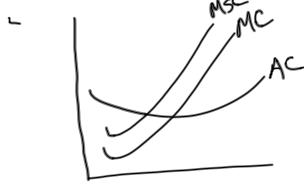
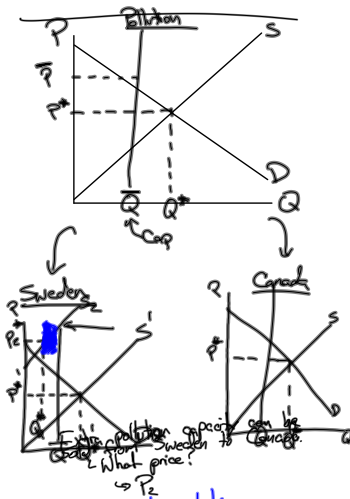


Last Class

- ↳ Spillover cost
 - ↳ Cost that goes beyond consumption
 - ↳ Negative externality
 - ↳ e.g. pollution, crime



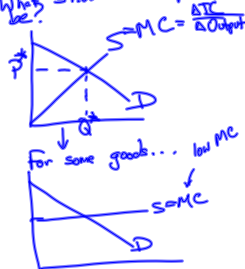
- Marginal Social Cost
- Pigou Tax
 - ↳ An additional tax which aligns the firms MC w/ MSC



Positive Externalities

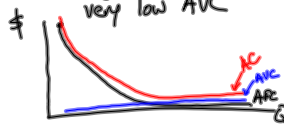
- ↳ Public Goods (e.g. parks, fire dept, police, ambulances)

e.g. Parks
↳ Why should the price be?



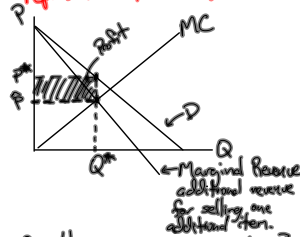
Monopolies

- Single seller
 - Often, with high barriers to entry.
 - Reasons why they exist:
 - ↳ Buy-outs & Regulated
 - ↳ Growth ← Permitted
 - ↳ Unfair practices (using Monopoly power)
 - ↳ Illegal
 - ↳ Natural monopoly ← Permitted but regulated
- Recall: $AC = AFC + AVC$
- What is common between Medicare, Qwest, MidAmerican?
- ↳ High Fixed Costs, very low AVC

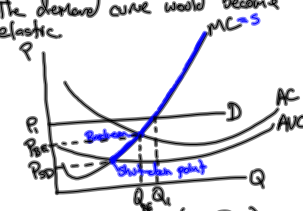


Economics of a Monopoly

- Remember the supply curve is represented by a single seller.



- What if there were more sellers?
- As firms entered the marketplace, firms would have less power.
 - The demand curve would become elastic.

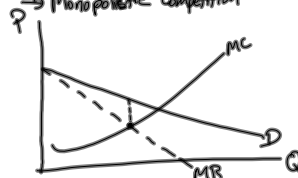


Profit? $(Q_1 - Q_{BE}) \times (P_1 - P_{BE})$

With perfect competition, the price will be equal to the market point.

Firms may try to differentiate their product to induce profits

↳ Monopolistic Competition



Short-term profits. Eventually, more firms will enter the marketplace which will reduce profits.

Oligopoly

- A few sellers (eg. airline)
 - ↳ Collude
 - ↳ Profits are possible