Name:_____ Row:_____ Seat:_____ Section:_____

ECON 151-012 - Fall 2007
Problem Set 7
Dr. Charlie Link

PURE MONOPOLY

1) Complete the table by computing total revenue, marginal revenue and the price elasticity of demand (use the arc formula).

Price	Quantity Demanded	Total Revenue	Marginal Revenue	Arc Price Elasticity
55	0	$_____		
50	35	$_____	----------	----------
45	70	$_____	----------	----------
40	105	$_____	----------	----------
35	140	$_____	----------	----------
30	175	$_____	----------	----------
25	210	$_____	----------	----------
20	245	$_____	----------	----------
15	280	$_____	----------	----------
10	315	$_____	----------	----------
5	350	$_____	----------	----------
0	385	$_____	----------	----------

a) Graph the demand curve and the marginal revenue curve in graph 1 and total revenue curve in graph 2 and then answer parts b, c, and d.
Note: Remember to graph marginal revenue at the midpoint of the range over which you are measuring it on the horizontal axis.

b) What do the data indicate about the relationship between average and marginal revenue? When is marginal revenue equal to the average revenue? Explain.

c) What do the data indicate about the relationship between total revenue and marginal revenue? Explain.

d) What do the data indicate about the relationship between price elasticity of demand and marginal revenue? Explain.

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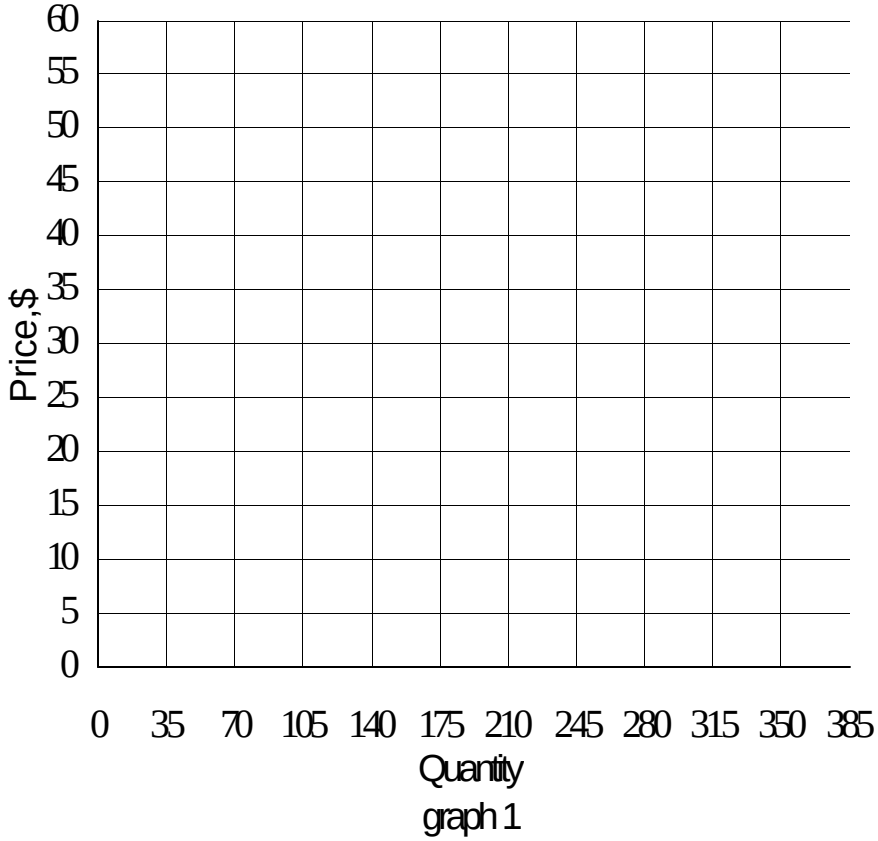
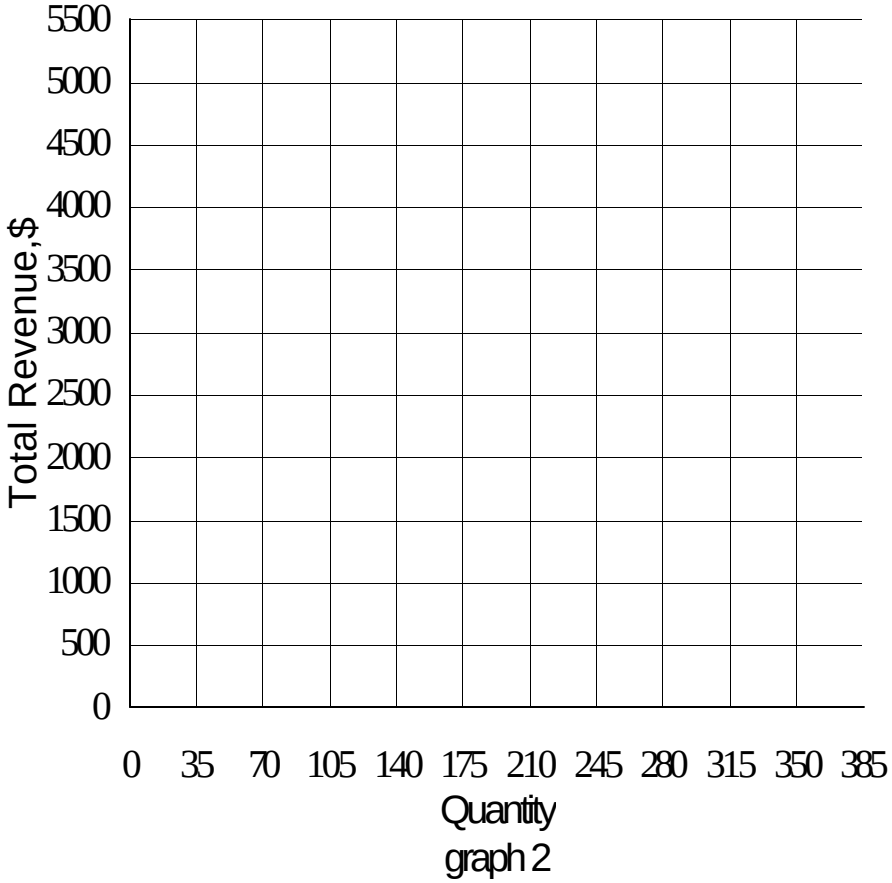


graph 1



graph 2

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2) The following table contains demand and cost data for a pure monopolist. Complete the table by filling the total revenue, the marginal revenue and the marginal cost columns. Then answer questions a, b and c.

Price	Quantity Demanded	Total Cost	Total Revenue	Marginal Revenue	Marginal Cost
110	0	3200	$_____		
100	20	4800	$_____	----------	----------
90	40	5600	$_____	----------	----------
80	60	6800	$_____	----------	----------
70	80	8600	$_____	----------	----------
60	100	11200	$_____	----------	----------
50	120	14600	$_____	----------	----------
40	140	19000	$_____	----------	----------
30	160	24600	$_____	----------	----------
20	180	31400	$_____	----------	----------
10	200	39400	$_____	----------	----------
0	220	48800	$_____	----------	----------

a) What output will the monopolist produce? _____

b) What price will the monopolist charge? _____

c) What total profit will the monopolist receive at the profit-maximizing level of output? (Calculate and show your work!)_____

3) Complete the following questions by filling in the blanks:

a) A monopolist's demand curve is the same as the industry _____ curve.

b) Price will be _____ in a pure monopoly than under perfect competition.

c) For a monopolist, marginal revenue is _____ than price.

d) If a monopolist and purely competitive industry have the same cost curves, output will be _____ under a monopoly compared to a purely competitive industry.