
Monopoly – Price Searching



Definitions



- ❖ **Monopoly** – a situation in which a **single seller** of a good **faces no competition** from close substitutes.
- ❖ **Price searcher** – a seller who has **sufficient market power** to **set the selling price** higher (and sell less), or lower (and sell more).
- ❖ **Marginal Cost** – the increase in total cost which results from raising the rate of production by one unit.
- ❖ **Marginal Revenue** – the change in total revenue resulting from an extra unit of a good sold .

Game Rules



- ❖ Each of you will be a **monopolist**.
- ❖ **No information** of demand.
- ❖ Determine the **quantity to supply** and the **price to charge** in attempt to earn the highest possible level of profits.

Worksheet



- ❖ There is a **code** on your sheet. Since every one of you have your own set of cost data, so this code will be your **ID** in this game.
- ❖ Only **know your production costs** in this game.
- ❖ You will now have **5 minutes** to compute the missing data first.

Start Calculation



Price Setting

- ❖ Decide and write down the **price** and **quantity you offer for sale**.
- ❖ **Teacher** will be the **market researcher** :
 - ✓ Tell you the **numbers of units demanded** at that **price**.
- ❖ Calculate the **“Total Revenue”**.



Price Setting



- ❖ In order to compute the “**Profit**” of that level of quantity demanded, you need to refer to the “**Total Cost**” that you need to incur to produce that level.
- ❖ Record the demand conditions on the “**Demand Estimation & Revenue**” table.
- ❖ You will have **10 periods** for you to search for the profit maximizing level of price and quantity sold.

Profit Maximizing



- ❖ **At the end of the 10 periods, the one who earns the highest profit wins.**
- ❖ **The first 5 periods will be the trial periods and the profit/loss you make in these 5 periods do not count in the calculation of profit you have earned at the end of the 10th round.**
- ❖ **As each of you have different markets, so please do not share your information.**

Game Starts



Discussion



- ❖ **Can you observe anything special on the MC and MR when your profit reaches the maximum? Can you explain why this is so?**
- ❖ **Explain your reasoning when using the trial rounds to search for the demand schedule. Would you have done anything differently when looking back?**

~ **The End** ~

