

1. As manager of the only video store in town, you have noticed that on Thursday through Sunday the demand for renting your movies is much higher than it is on Monday through Wednesday. You therefore conducted a study that revealed two different market demand curves. On weekends, your inverse demand curve is $P = 10 - .001Q$; on weekdays, it is $P = 5 - .01Q$. The marginal cost of renting a movie is \$.50 (50 cents). Your average customer never rents more than one movie at a time. What pricing strategy will maximize your profits?
2. You run a golf course at a tourist resort. At your resort, there are two distinct groups of players. One group owns property at the resort and resides there most of the year. On average, each of these consumers has a monthly inverse demand for golf services of $P = 100 - .5Q$. The other group visits for one week at a time and has a total weekly demand curve of $P = 40 - .1Q$. What pricing strategy will maximize your profits?
3. You are the owner of a mom-and-pop store that buys milk from a supplier at a cost of \$1 per gallon. If you estimate the elasticity of demand for milk sold at your store to be -3.5, what are your profit-maximizing markup and price?
4. You are the manager of a gas station in a small town, and your goal is to maximize profits. Based on your experience, the elasticity of demand of Texans for a car wash is -2, while that of non-Texans is -1.5. Your marginal cost is \$6.
 - a. Are the conditions necessary for price discrimination to be an effective means of enhancing profits being met? Explain.
 - b. What is the profit-maximizing price to charge a Texan for a car wash?
 - c. What is the profit-maximizing price to charge a Californian for a car wash?
5. Before the breakup of AT&T, the firm charged a price for local telephone services that was roughly one-half of its cost of providing the services. In contrast, it charged almost two times its cost for long distance services. Why do you think AT&T adopted this pricing strategy?
6. Will consumers spend more time searching when stores are located in a mall or when they are spread all over town? Explain.
7. "Guaranteed issue" is a controversial issue in the insurance market. It requires firms offering health coverage for one employee to offer the same coverage to all employees, regardless of their health risks. Why is this so controversial?