

# Topics in Industrial organization

## Advertising and competition

Positive vs negative advertisement

A model of limit capacity

Capacity constrained vs unconstrained

## Dynamic Monopoly

total for all periods at/after purchase -  $P$

|      | $P_1$ | $P_2$ |
|------|-------|-------|
| High | 1200  | 500   |
| Low  | 500   | 200   |

Regardless of  $P_1$ , if at least one high customer and no lows purchase in  $P_1$ , it is optimal for the seller to select  $P_2 = 200$  in  $P_2$

Scheme A: all customers in  $P_1$

$$500 + 200 = 700 \quad 1700 - 700 = 1000$$

$$P_1 = 700$$

Scheme B: all customers not in  $P_1$

$$P_1 > 1700 \text{ so } P_2 = 500$$

Scheme C: high in  $P_1$ , low in  $P_2$

at  $P_1 \geq 700$ , highs buy but lows don't

$$\max_{P_1 \leq 1400} 1200 + 500 - P_1 \geq 500 - P_2 \rightarrow P_2 = 200$$

$$P_1 = 1400, P_2 = 200$$

Price guarantees as a commitment to high prices