

# Uncertainty Week 1, Week 1

## Classical probability and decision outcome based decisions

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# Agenda

## Nuts and bolts: Market power and formal market power

- ▶ **Power:** The ability to acquire goods below their market price
- ▶ **Market power:** Market power is the ability to set prices above cost.
- ▶ Memo on cost: Costs subjective, depends on the uneasiness of the process of creation(think actors/writers)
- ▶ **Formal Market power:**  $r = (R-C)/C$  or if costs proportional to output then:  
 $r = (P - UC)/UC$
- ▶ **Effects for firms:** More profits
- ▶ **Effects for consumers:** Value transfer from consumer to firm

## Nuts and Bolts 2: Static/Dynamic and Sources of market power

- ▶ **Uncertainty:** Incomplete knowledge about the probabilities of events.
- ▶ **Why do we care?:** Incomplete knowledge about the probabilities of events.
  - ▶ first 1
  - ▶ second 2

# Agenda