Week 1 Group Assignment - Group 4

A)

1. Market power is the extent to which a firm can sell its product above its cost. This can be done by manipulating supply and/or demand. Power is the ability to acquire goods below market price.
2. Ease of entry and exit, patents and copyright, government regulation, how high competition is, customer loyalty, **how far P is above C**, .. . Lerner’s index of market power ( (P-MC)/P ) is a measure of it. P is the price at which the firm sells its output, MC is the ‘marginal cost’ of the firm at the volume he sells. In a perfect market when P = MC, then L = 0.

<https://www.britannica.com/topic/Lerner-index>

1. OPEC in the oil market, LVMH in the luxury market, Apple in the information technology market, McDonalds in the fast food market, Nike & Adidas in the sports industry.
2. Pros: Sometimes more socially efficient as in the case of natural monopolies, stabilize job market, can be a guarantee of quality to customers

Cons: Less competition → lack of innovation, corporations have more influence in regulating the market, exclusivity on the market. Quality of goods rarely goes beyond the bare minimum as there is no competition pushing manufacturers.

1. Antitrust prevents the collusion and non competitive behavior of firms, while regulation is a general term used for any legal boundaries within which firms must operate, such as workers’ rights regulations or food quality regulation
2. The loss of total surplus for a society when a market fails to reach a competitive equilibrium due to market distortion, like a tax or price ceiling

B)

1. Tariff protection on the steel industry, and restrictions on foreign imports by the government. This one is the most convincing as it portrays how the government makes the steel industry exclusive to its own nation, locking out the international competition and providing benefits to its own firms.
2. Friedman suggests that we should repeal most of government regulations and establish a fully free market, without tariffs. One possible problem could be that companies would fail more frequently due to high competition, taking away the stability of peoples’ jobs. A pro would be that it would be easier to start a company, which would foster innovation and wellbeing.
3. The American student loan system is fully monopolized by the US Department of Education. Students have no choice of who their student loan provider will be, which has led to a complete lack of competition in the market. This is largely the reason why college is so expensive in the US.

C)

By definition, durable goods are those commodities which are not totally exhausted in one consumption. Furniture, Mobilephone, Cars for instance.

Secondary market: Market where the exchange of used products happens between customers. Manufacturers are merely indirectly present in this market as it's their product that gets exchanged, however they lack the same power they have on the primary market. In text, resale market may be used as a synonym. Continuous offers from sellers toward customers somehow creates competitions for the monopolist firm. In the case of durable goods, the customers may postpone their purchase of a newer product as the previous one still functions. In order to prevent this, a firm might have to decrease the price of the new product to motivate customers' purchases. A monopolist might try to price their product more competitively so that customers buy from them, and not on the resale market or from the same brand but later. This drives down the price, even though there is a monopoly. This means that the monopolist might need a more sophisticated system to predict what price would be the most optimal to sell at, despite them having an absolute monopoly on the production of the good itself.

The Coase Conjecture shows that, despite a producer having an absolute monopoly on its product, such as Apple, they are effectively competing against themselves through the resale market. Chanel’s semi annual price rises mean that buying the same Chanel bag on the resale market at the price it was a year ago is worth it more for the consumer, even though it is the exact same product. This leads to the firm having to price its products lower in order to avoid its buyers always wanting to wait for them to go on resale. Chanel even sued resale companies in an effort seeming to fight back against resellers that were driving their demand down. Miscalculating customers’ valuation for the good, however, can lead to losing revenue. The valuation of a given product is also dependent on the new product’s release timing. So if the new product with its price drop gets released too early, the company trying to generate extra sales might end up with less total income as the boost in sales is marginal.

(<https://uclawreview.org/2020/12/14/chanel-v-the-realreal-luxury-meets-resale/>).

2. The Coase Conjecture assumes that goods can be resold and has the same quality in the resale market (i.e. possessing and using the product doesn’t damage it. This assumption causes manufacturers to compete for the sale of their own product.

The conjecture also assumes that the good is able to be resold and is durable, meaning that it does not expire or disappear after one use. Examples of such goods include furniture, fine art, jewelry, smartphones, firearms, clothing, etc. However, the resale market isn’t always bad for firms; brands like Supreme keep their prices low and produce few goods to keep interest in their brand high. This leads to their good being sold with markups that can multiple folds.

The monopolies’ power over the secondary market is derived from the supplied amount of goods on the primary market. If the firm decides to flood the market with their products, they take away the ability from the customer to resell their products on the secondary market because it is much easier for a new potential buyer to just buy from the company itself. However, in case of flooding the market, the product may lose its exclusivity and hence suffer a drop in valuation and price eventually. Therefore, if a company decides to limit the product output, the ability to resell those goods increases, as the company will not offer products to latecomers, they must turn to the secondary market in order to obtain a specific item. This may keep the product’s exclusivity and keep the valuation and price up. A perfect example for this is the case of Supreme and Obey - they may not be monopolist, but their case still provides a good example - as they were each other's main competitors. Supreme kept their products limited and made the secondary market for its product active, as it was the only place where one had the ability to gather this product. Obey on the other hand tried to satisfy every customer’s needs and started flooding the market. This led the company to lose its exclusivity and to fall off from the competition. In conclusion, giving the customer the ability to resell - hence keeping the secondary market active - is beneficial for the firm in the long run as well.