

Week 7 Overview

Firms with Market Power

Overview

So, why is it that when you fly the person sitting next to you in the plane probably paid a different price for the ticket than what you paid for it? And why does Starbucks charge so much for its coffee even though you can buy coffee at Dunkin' Donuts for almost half of that price?

This module we are finishing our discussion of the firm by focusing on cases that should be more familiar to you than the perfect competition examples we have been using. We are going to talk about firms that do have some control over the price, or have some "monopoly" power. As you will learn, this is the case for firms such as Apple, Starbucks, Microsoft, E-bay, and many other famous brands. We will learn the way these firms choose how much quantity to produce, and, more importantly, how they decide to price their goods and services. Along these lines, we will talk about price discrimination and many other fascinating strategies firms use to price their goods.

Goals and Objectives

After you actively engage in the learning experiences in this module, you should be able to:

- Identify different market structures.
- Distinguish between marginal revenue for a perfectly competitive firm and marginal revenue for a firm with market power.
- Explain the welfare effects of a firm with market power (e.g. monopoly).
- Identify different types of price discrimination.
- Explain whether price discrimination is good or bad for society.

Key Phrases/Concepts

Keep your eyes open for the following key terms or phrases as you complete the readings and interact with the lectures. These topics will help you better understand the content in this module.

- Monopoly
- Market structure
- Price making firm
- Market power
- Price discrimination
- Pricing

Guiding Questions

Develop your answers to the following guiding questions while completing the readings and working on assignments throughout the week.

- What is a monopoly?
- What is the relation between market demand and marginal revenue for a firm with market power?
- What are the welfare effects of having a monopoly?
- What is the difference between monopoly, monopolistic competition, and perfect competition in terms of long-run equilibrium?
- What is price discrimination?
- What are the different types of price discrimination and how are they different?
- Why is price discrimination better for sellers and buyers?

Optional Readings and Resources

- Chapters 13 and 15, *Microeconomics*, Krugman and Wells, 3rd Ed.
- [Econ Tutorial: Monopoly](#)