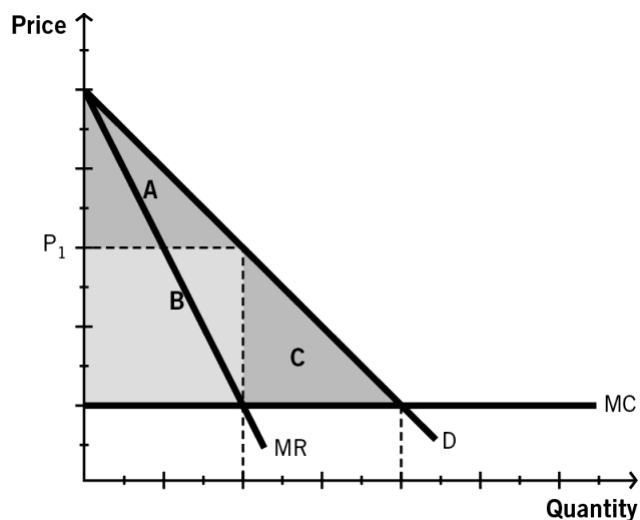


Week #9 Worksheet Solutions – What is Price Disc.? ~ Welfare Effects

- _____ 1. Price discrimination exists when a firm sells _____ goods at more than one price to _____ groups of customers.
- different; similar
 - existing; distinct
 - discounted; large
 - identical; different**
 - limited; restricted
- _____ 2. Many electronic brands such as Apple, HP, and Epson typically offer refurbished products at lower prices. In this case, these companies are:
- not discriminating prices because the refurbished products are different from the new products.**
 - price-discriminating because they offer a similar product at a lower price.
 - price-discriminating because they offer those discounts only online.
 - not discriminating because people can buy the same products in retail stores.
 - are not discriminating because they are price-takers, not price-makers.
- _____ 3. One reason that firms may be unable to utilize price discrimination as a viable strategy is because:
- it is always illegal to price-discriminate.
 - firms are unwilling to maximize profits.
 - most consumers' reservation prices are well publicized.
 - firms are unable to prevent resale of the product they offer for sale.**
 - firms are unlikely to increase profits after paying for increased marketing costs.
- _____ 4. The main reason firms cannot price-discriminate under perfect competition is because:
- firms are price-takers and cannot set prices for their goods.**
 - firms cannot identify different kind of consumers perfectly.
 - some goods are being resold in the market.
 - there is a lot of heterogeneity among consumers' tastes.
 - all firms share the same production technology.
- _____ 5. Suppose the market for golf clubs has moved from a perfectly competitive market to one that is completely dominated by firms practicing perfect price discrimination. Which of the following statements is true about the change in welfare?
- The change creates a deadweight loss.
 - Society's total welfare is zero after the change.
 - There is a decrease in deadweight loss accompanied by a decrease in producer surplus.
 - Some surplus has been lost to society, but consumers are better off overall.
 - All of the surplus previously enjoyed by consumers has been shifted to producers.**
- _____ 6. When a market model moves from that of a monopoly to one in which perfect price discrimination is practiced, the deadweight loss:
- increases.
 - remains unchanged.
 - can increase or decrease depending on the type of loss.
 - decreases.**
 - fluctuates.

- _____ 7. One of the benefits of perfect price discrimination over a monopoly is that it can increase:
- marginal welfare.
 - total welfare.
 - average welfare.
 - cost of production.
 - marginal cost.
- _____ 8. Use the following graph for the rest of the questions.

The accompanying figure depicts a generalized downward-sloping market demand (D) curve for a product. It also shows the firm's relevant marginal revenue (MR) curve and marginal cost (MC) curve. Refer to this figure to answer the questions that follow.



For a perfectly competitive market, which area(s) are designated as consumer surplus?

- A
 - B
 - C
 - A + B
 - A + B + C
- _____ 9. For a monopoly that charges a single price of P_1 , which area(s) are designated as consumer surplus?
- A
 - B
 - C
 - A + B
 - There is no consumer surplus.

- _____ 10. If the firm can price-discriminate perfectly, which area(s) are designated as consumer surplus?
- a. A
 - b. B
 - c. C
 - d. A + B
 - e. **There is no consumer surplus.**
- _____ 11. For a perfectly competitive market, which area(s) are designated as deadweight loss?
- a. A
 - b. B
 - c. C
 - d. A + B
 - e. **There is no deadweight loss.**
- _____ 12. For a monopoly that charges a single price of P_1 , which area(s) are designated as deadweight loss?
- a. A
 - b. B
 - c. **C**
 - d. A + B
 - e. There is no deadweight loss.