PRINCIPLES OF MICROECONOMICS (SBSD1013)

GROUP ASSIGNMENT 1

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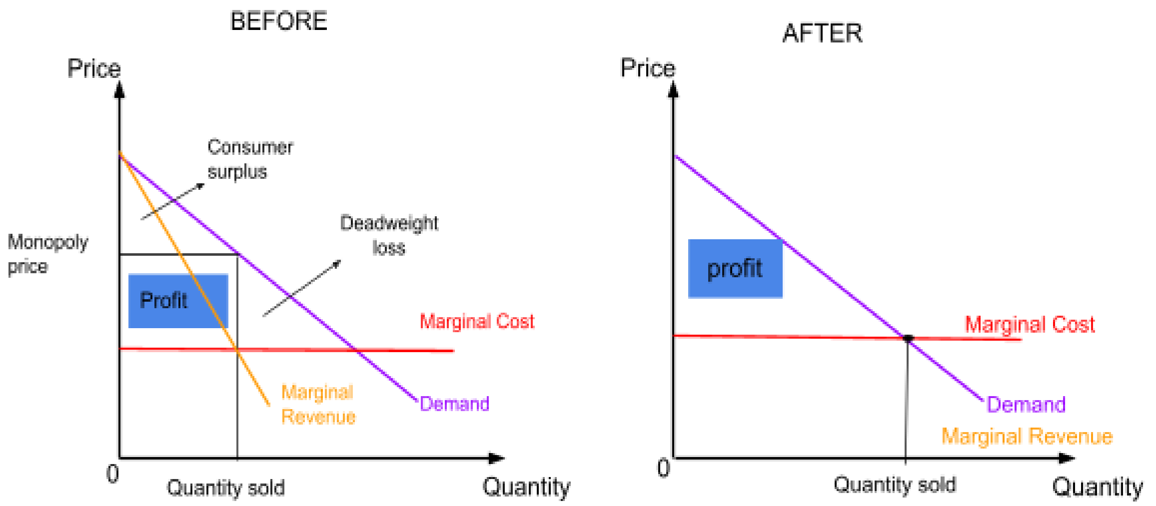
ANSWERS

1.

- Price discrimination is a selling strategy that charges customers different prices for the same product or service based on what the seller thinks they can get the customer to agree to. In pure price discrimination, the seller charges each customer the maximum price they will pay. In more common forms of price discrimination, the seller places customers in groups based on certain attributes and charges each group a different price.

- Example: Many industries, such as the airline industry, the arts/entertainment industry, and the pharmaceutical industry, use price discrimination strategies. Examples of price discrimination include issuing coupons, applying specific discounts age, discounts and creating loyalty programs. One example of price discrimination can be seen in the airline industry.



- Monopolists can raise their profit by charging different prices to different buyers based on their willingness to pay.So,the demand curve also Marginal Revenue.

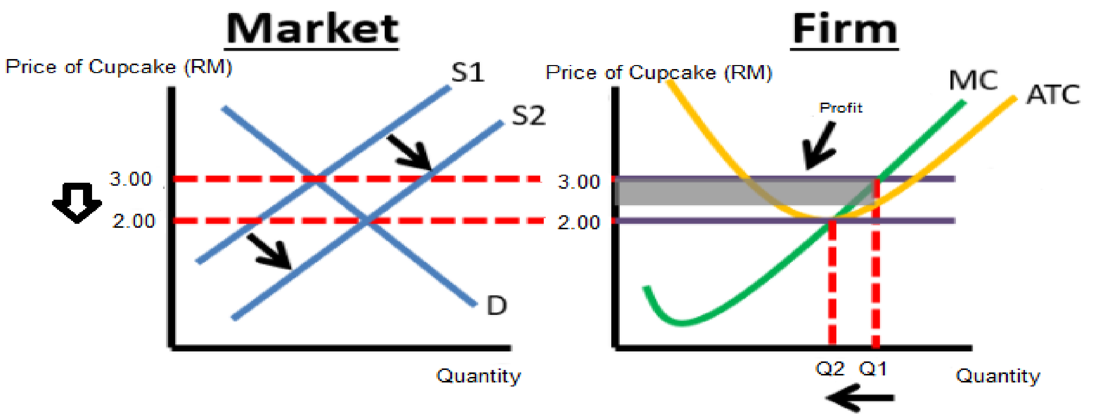
- Price discrimination can raise economic welfare.Consumer surplus and deadweight loss have both been converted into profit.

2.

- A firm in a perfectly competitive market may generate a profit in the short-run, but in the long-run it will have economic profits of zero.
- Productive efficiency is achieved as new firm enter the market
- Increased competition reduces price and cost to the minimum of the long-run average cost.
- However, a perfectly competitive firms has some characteristics such as:
  - Each firm make a similar product
  - There are no barriers to entry into or exit from the market
  - There are many buyers and sellers in the market
  - There are no transaction cost
  - All firms contribute insignificantly to the market. Their Wong production levels do not change the supply curve
  - All firms are price takers. They cannot influence the market . If a firm tries to raise its price, consumers would buy from a competitor with a lower price instead.

Example :

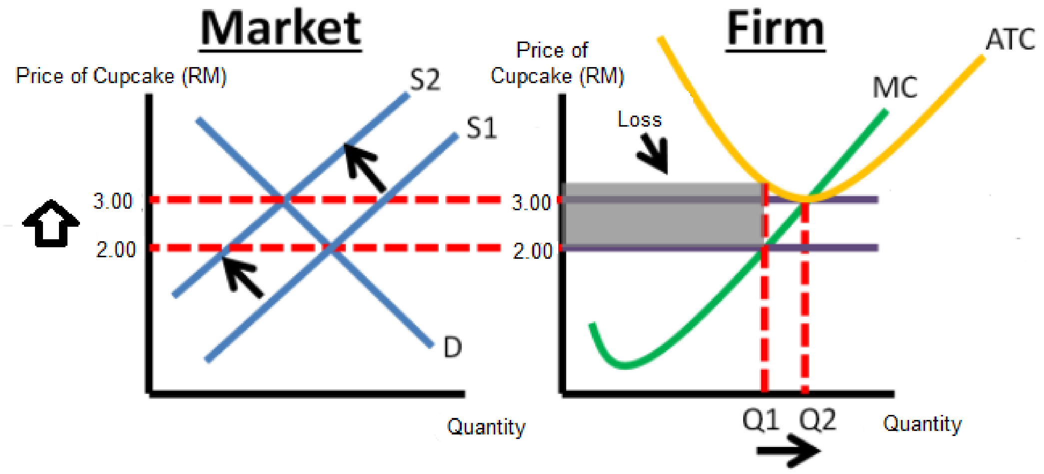
In X country, there are two bakeries selling cupcakes. The price of one cupcake is RM2.00. They set the price of the cupcake by following the supply and demand. One day, these three owners of the bakery are meeting together to discuss how to increase their sales by increasing the price of a cupcake. They demand to increase from RM2.00 to RM3.00. They thought they could get more profit when they increased the price of cupcakes.



Unfortunately , their sales only increased for a short period because a small bakery was open near them . The new bakery was selling a cupcake with RM2.00 per one which is the lowest price then other bakery. The new bakery got a higher profit than the previous bakery due to the quantity of buyers buy from them.

The graph below shows that the price will remain the same because when some stores increase their price of cupcakes , the customer will buy the lower price of cupcakes more.

Then, other bakeries have decided to reduce the price of cupcakes to RM2.00 back in order to save their business from being unsold. This shows that, whenever there is a perfect competitive market, they will always get a zero profit because they need to follow the supply and demand.



- In the sum, the perfectly competitive firm are using the long-run equilibrium. At this point, price equals both the marginal cost and the average total cost for each good
- Perfect competition is where the sellers within a market place do not have any distinct advantage over the other firms since they sell a homogenous product at similar price to gain zero profit.