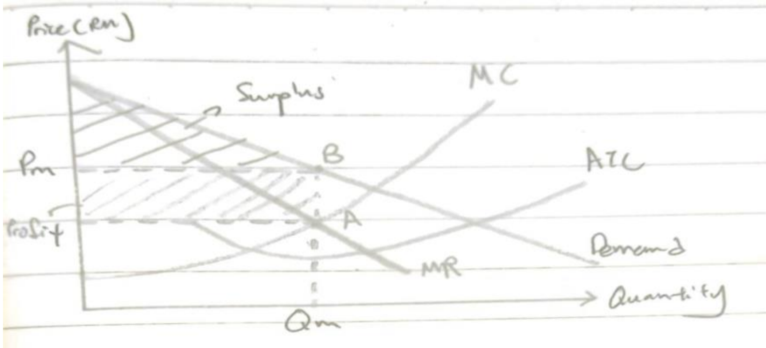
Question 1 (20 marks)

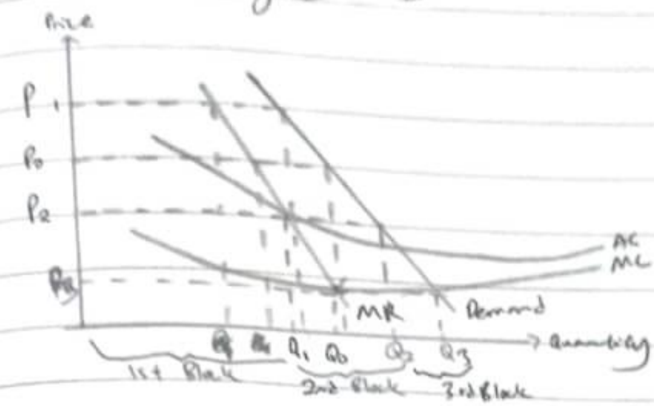
Monopoly firm always introduce price discrimination in the market. Using an appropriate diagram, clearly show how does the monopoly firm setup their price range in the market and how its relate to price discrimination.

1 st Degree PD



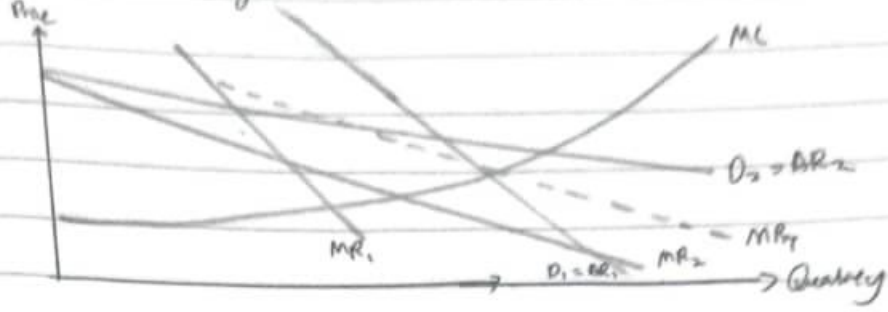
- A monopoly firm means that the company has dominated a certain market and does not have many competitions with other companies to get sales.
- This advantage can be used by monopoly companies to act as a price maker.
- They can discriminate the price so that they can maximise the profit and reduce the deadweight loss.
- Monopolistic companies cannot discriminate on price because they have many market competitors.
- For example, 'zoo negara' has set different prices for customers with different age categories where the ticket price for adults with malaysian citizenship is RM45.00 and children is RM18.00 while senior citizens are RM23.00.
- This indicates that the ‘zoo negara’ can actually operate for RM18 but they choose to sell tickets at varying prices or in another word, discriminating price.
- In addition, another example is Malaysia Airlines. The company offers a variety of prices that based on the level of comfort in a particular seat. they offer economy seats at low or moderate prices while bussiness seats at high prices and first class seats at a very high prices.
- They will provide different choices of food and drink for each type of seat.
- Customers in economy seats can only choose between two types of food and beverage during the flight while customers in bussiness and first class seats can choose various foods according to their tastes.

2nd Degree PD



- Different prices are charged for different quantities or "blocks" of the same good. Here, there are three block with corresponding prices P_1 P_2 and P_3
- There are also economies of scale, and average and marginal costs are declining. Second-degree price discrimination can then make consumers better off by expanding output and lowering cost.

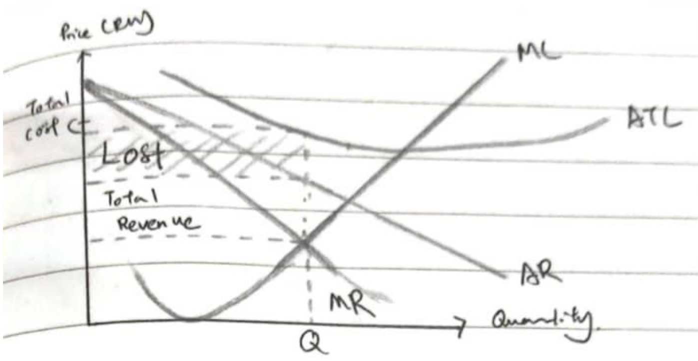
3^{rd} Degree PD



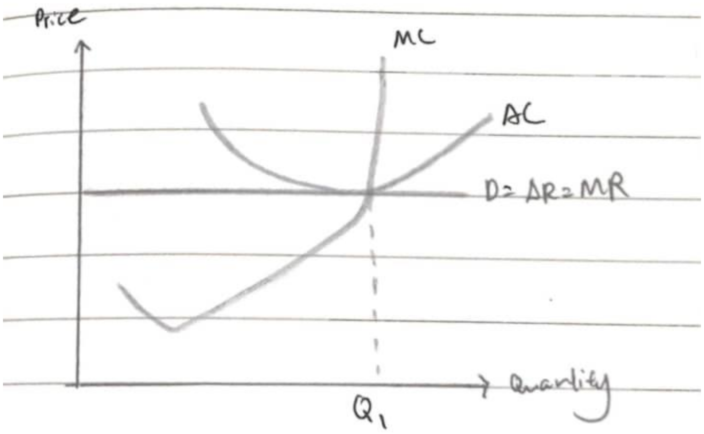
- There have three necessary conditions for PD which is firm must have some control over price, it must be possible to group different markets in term of ~~pr~~ the price elasticity, and firm's markets must be ~~sp~~ separable.
- Consumer are devided into two groups, with separates demand curves for each group. The ~~optional~~ optimal prices and quantities are such that the marginal revenue from each group is the same and equal to marginal cost.
- Here group 1, with demand curve D_1, is charged P_1.
- Group 2, with the more elastic demand curve D_2, is charged the lower price P_2
- Marginal cost depends on the total quantity produced Q_T.
- Note that Q_1 and Q_2 are chosen so that $MR_1 = MR_2 = MC$.

Question 2 (20 marks)

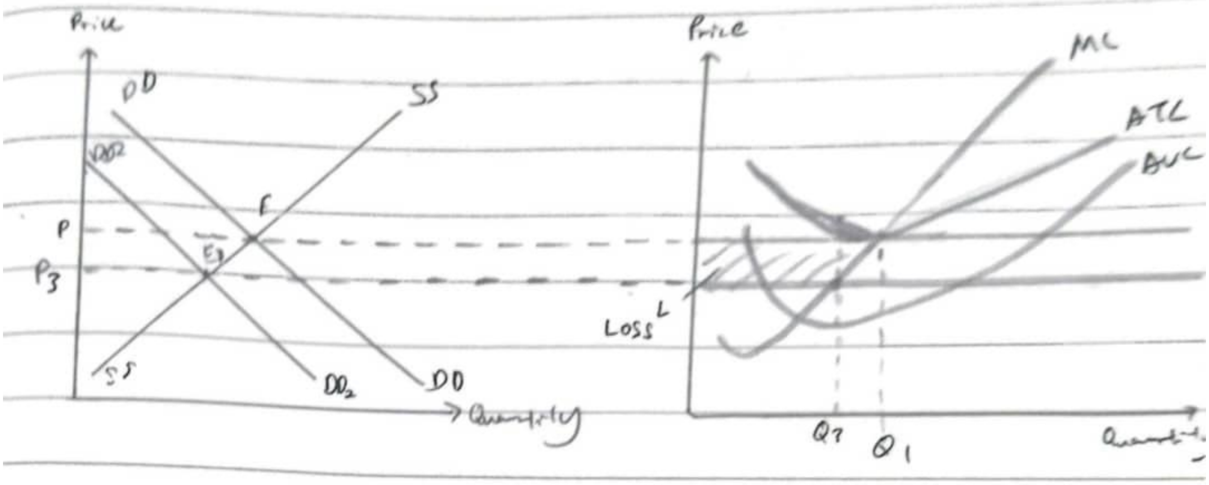
The perfect competitive firm always receive 'zero profit' in the market. Explain in detail using diagrams, why this market structure always facing this issue.



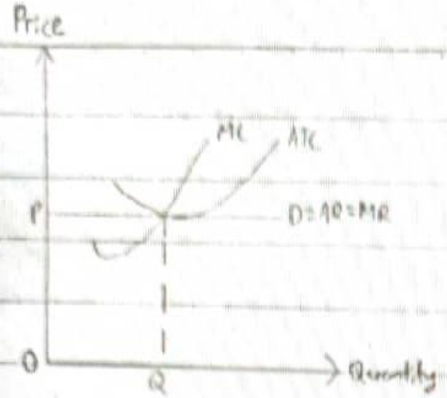
Abnormal Profit



Normal Profit



Economy Loss



- Prefect competition refer to the company which have the same influences from the buyers with other companies in the market.
- Over the long run, the firm in a perfectly competitive market are earning a positive income, therefore more firms will enter the market.
- The supply curve will shifts to the right, the price equilibrium will going down.
- The economic profit will decrease until become zero profit.
- when price is less than ATC, firm are making loss, more firms will leave market and the supply curve will shift to the left.
- As the supply curve shift left, the price will increase. the economic profit also will increase until become zero.
- In sum, Over the long run, the companies that are engaged in a perfectly competitive market will earn zero economic profit. The long run equilibrium point of a perfectly competitive market occurs when demand curve intersects the marginal cost curve with the minimum point of the average cost curve.

- Based on the question, we can say that the perfect competitive firm always receive zero profit because in the long-run, the firm profit can't be sustained. The arrival of new firms in the market will causes the demand curve of each firm to shift downward which will eventually decrease the price.
- From these, the firm in the market will get zero profit due to the presence of other firms in the market.
- For example, the stall that sells fruit in R&R highway. Each fruit stall has to sell its products at the same price as the competitor's price to get sales. If one of the competitors decide to decrease price, the equilibrium price also will decrease and the other firms must follow the equilibrium price in order to avoid negative profit.