

PRACTICE EXERCISES FOR CHAPTER 12

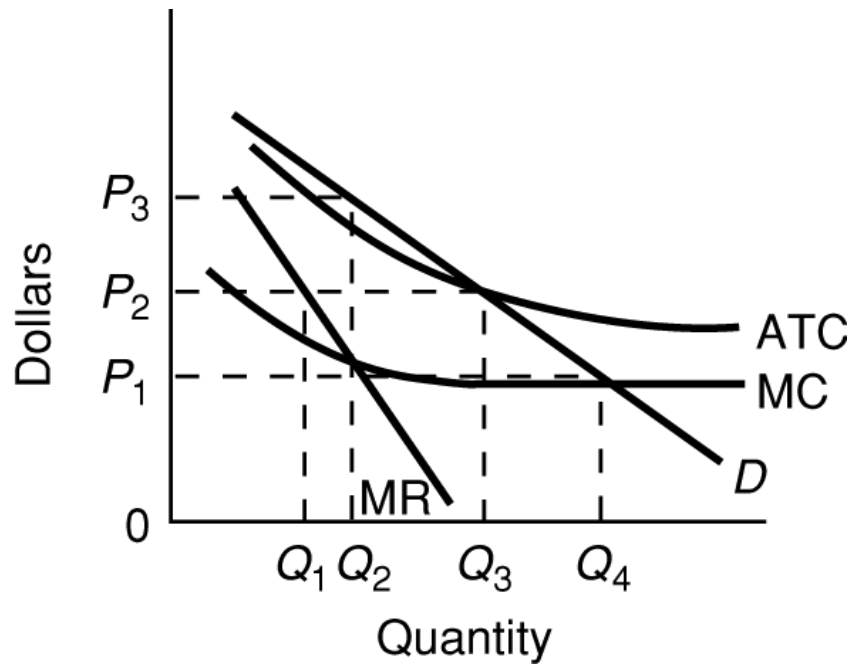
The exercises below are designed to facilitate your understanding of the mathematical and graphical concepts relevant to Chapter 12. Use your lecture notes and textbook to complete the problems and THEN “grade” yourself using my solutions, which are provided on the last few pages of this packet. **Remember, completing this exercise set is only a PART of the exam preparation process in this course!**

Charlie’s Cable Company is the only licensed provider of cable television service in the tri-county area. Most of its costs are access fees and maintenance expenses. These fixed costs total \$640,000 per month. The marginal cost of adding another subscriber to the service is constant at \$2 per month. The demand curve for Charlie’s Cable Company service can be determined from the data in the table below. Fill in Total Sales Revenue and Total Cost to make this problem easier to work!

Subscription Price Per Month	Number of Subscribers Per Month	Total Sales Revenue Per Month	Total Cost Per Month
\$25	20,000		
\$20	40,000		
\$15	60,000		
\$10	80,000		
\$5	100,000		
\$1	150,000		

1. In order to maximize Total Monthly Profit, what price will Charlie’s Cable Company charge to customers for service?
2. In order to maximize Total Monthly Profit, how many subscribers will they service?
3. How much Total Monthly Profit does the company earn?
4. Now suppose the tri-county local government acquires the data in the table above and decides that cable television subscriptions are priced too high. What regulated price will the commission set so that Charlie’s Cable Company earns only a normal profit? How many customers will the company choose to service under this type of regulation?

The graph below indicates the demand and long-run cost conditions in the market for local telephone service.



5. Locate the profit-maximizing quantity this natural monopolist would produce.

6. Locate the profit-maximizing price this natural monopolist would charge.

7. Assume the government implements price regulation on this natural monopolist. What price and quantity would be imposed on the firm?

8. Assume the government implements profit regulation on this natural monopolist. What price and quantity would be imposed on the firm?

MY SOLUTIONS

(1) \$15

(2) 60,000

(3) \$140,000

(4) \$10, 80,000

(5) Q2

(6) P3

(7) P1, Q4

(8) P2, Q3