

Week 7: Try This!

Suppose a monopolist can costless prevent arbitrage between two markets (A and B) which are characterised by the demand curves

$$x_A = 4 - p_A$$

$$x_B = 4 - 2p_B$$

The monopolist's cost function is

$$c(y_A + y_B) = 1 + 1/5 (y_A + y_B)^2$$

What prices should he charge in each market?