

# Bundling

- Can a firm extract more surplus by bundling products together?
- Yes, if customers have heterogeneous demands
- Reservation price – highest price a consumer is willing to pay for a product

	<i>Gone with the Wind</i>	<i>Getting Gertie's Garter</i>
Theater A	\$12,000	\$3,000
Theater B	\$10,000	\$4,000

- How much can the firm make selling the movies separately?
- Now, bundle
  - How much revenue can firm make?

## Making Bundling Work

- Correlation of reservation prices
  - If negative, bundling can increase revenue
  - If positive, bundling cannot increase revenue
- Bundling diagrams:



## Monopolistic Competition

- What happens with differentiated products and free entry?
  - Examples?
- SR and LR

## Monopolistic Competition and Welfare

- Compare perfect competition with monopolistic competition

- There is DWL under monopolistic competition
  - A big deal?

## Free Entry and Social Inefficiency

- Is free entry always good?
  - Plus: reduces prices, increases variety (if d.p.)
  - Minus: can increase cost of production
- Suppose there are fixed costs
- Broadcasting example
  - What is cost structure?





## Reaction Curves

- E.g. setting  $MR_1=MC$  gives firm 1 reaction curve
- Solving reaction curves together gives equilibrium

## Cournot Duopoly vs. Monopoly

- Characterize monopoly solution
  - Also collusive solution



# Comparing

- Cournot Duopoly vs Monopoly vs Competition

## First Mover Advantage

- Suppose firm 1 knows firm 2's reaction curve?
- Then firm 1 controls  $Q_2$