Regulating Monopoly

Suppose you are an analyst for a board that regulates local monopolies. Your supervisor has given you the three questions below. Using the information in Figure 37.1, answer your supervisor’s questions.

Figure 37.1
Regulating a Monopoly

1. If this monopolist is not regulated, what will be the level of
   (A) output? _____________
   (B) price? _____________
   (C) total revenue? _____________
   (D) total costs? _____________
   (E) profit or loss? _____________

2. If this monopolist is regulated by marginal cost pricing (i.e., the socially optimal price), what will be the level of
   (A) output? _____________
   (B) price? _____________
   (C) total revenue? _____________

3. If cost-of-service regulation (fair-return price or average cost pricing) is imposed on this monopolist, what will be the level of
   (A) output? ______________
   (B) price? ______________
   (C) total revenue? ______________
   (D) total costs? ______________
   (E) profit or loss? ______________

4. What are the advantages and disadvantages of marginal cost pricing?

5. What are the advantages and disadvantages of cost-of-service regulation?