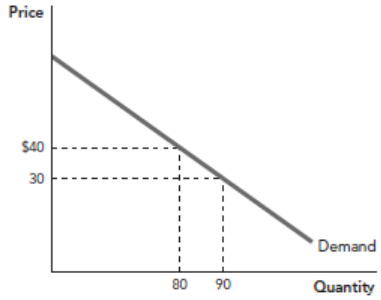
Lecture Assignment 12

Suppose the five landscapers in your neighborhood form a cartel and decide to restrict output to 16 lawns each per week (for a total of 80 lawns in the entire market) in order to keep prices high. The weekly demand curve for lawn-mowing services is shown in the following figure. Assume that the marginal cost of mowing a lawn is a constant $10 per lawn.



The market for lawn-mowing services

a. What is the market price under the cartel's arrangement? How much profit is each landscaper earning per week under this arrangement?

b. Suppose one untrustworthy landscaper decides to cheat and increase her own output by an additional 10 lawns. For this landscaper, what is the total increase in revenue from such behavior? What is the marginal revenue per lawn from cheating? Which is higher: the marginal revenue from the extra lawns or the marginal cost?

c. Is it a good idea for the untrustworthy landscaper to cheat? What considerations, other than weekly profit, might enter into the landscaper's decision about whether to cheat?