Lecture Assignment 11

1. Common sense might say that a monopolist would produce more output than a competitive firm facing the same marginal costs. After all, if you're making a profit, you want to sell as much as you can, don't you? What's wrong with this line of reasoning? Why do monopolistic industries sell *less* than competitive industries?

2. As we saw in this chapter, drug companies often charge much more for the same drug in the United States than in other countries. Congress often considers passing laws to make it *easier* to import drugs from these low-price countries (it also considers passing laws to make it illegal to import these drugs, but that's another story).

If one of these laws passes, and it becomes effortless to buy AIDS drugs from Africa or antibiotics from Latin America—drugs that are made by the same companies and have essentially the same quality controls as the drugs here in the United States—how will drug companies change the prices they charge in Latin America and Africa? Why?