

Homework 1

Instructions

Upload this homework into the homework vaults in the IS no later than on 29/2 at 23.59. Tasks submitted after this date can be evaluated only if you have an excuse in the IS for at least 3 working days in a given week between the given lectures and exercises (from these five: Wed, Thu, Fri, Mon, Tue) and the teacher has given you an alternative date when you submit your homework. We expect that you write the homework on your own. Should your answers resemble with the answers in someone else's homework, we might deduct points from your score. We appreciate the effort and thorough thinking (whether your answers make sense, whether you have supported all your claims by careful argumentation, whether your answers are informed by data). Try to formulate ideas as concisely as possible. Certainly do not add any "dummy text" just in order to get closer to the maximum extent. The final document can be inserted into the System in all standard formats (doc, docx, odt, pdf, ...). Print your homework and take it to the seminar on 25/2. Title the document Homework 1 (your name and surname will be added to the name of the document automatically).

Task 1 (1 point, maximum extent 150 words)

Specify and briefly describe one real-world example of price discrimination and one real-world example of bundling or tying. Each example must contain a link to the source (a website is sufficient). If you come up with examples that are both different from the examples of other colleagues, you get an extra point.

Task 2 (2 points, the maximum extent 400 words)

James Munopilee runs Munopilee Air, which is the sole provider of passenger air service between Eldorado and Erewhon. It flies two flights per day in either direction, with the typical flight being about 85 percent booked. A new entrant, Upstart Airways, has announced plans to offer additional service in the Eldorado–Erewhon market. However, James has filed a complaint with the local transportation authority arguing that his firm is a natural monopoly and that additional air service will only cause losses for both parties. As evidence, James cites the fact that, even now, his planes are not fully booked. Hence, he argues that the market is not large enough to sustain two efficient-sized air carriers. Evaluate the argument put forth by Munopilee Air. What problems do you see in its logic? What information is needed in order to determine whether or not this market is a natural monopoly?

Task 3 (5 points, the maximum extent 700 words)

Read the paper Stavins (2001) (see the study materials) and answer the following questions:

1. What is the purpose of the abstract and introduction? What is the difference between their purposes?
2. Formulate the research question of this article in one sentence and briefly describe the research method.
3. How do you understand the concepts of "cost-based price dispersion" and "demand-based price dispersion" in the second paragraph of the introduction? Why should the proposed method facilitate the isolation of the demand factors?
4. What is the answer to the research question?
5. What is the contribution of this article? What are its strengths and weaknesses?