

ECON 321, Assignment 19: Klumpp and Su, Open Access and Dynamic Efficiency

1. Read the introductory section.
2. Skim Section I, the literature review.
3. Read Section II part A. Let's assume that $f(\theta) = \frac{1}{4}\theta^3$, so that the marginal cost of quality is $f'(\theta) = \frac{3}{4}\theta^2$. Write down the monopoly optimal quantity and quality and the socially optimal quantity and quality.
4. Read Section II part B.
5. Read Section II part C.
6. Read Section III. The “answer” is given in equation (8). If we further assume that $n = 3$, this will simplify pretty nicely. Write down.
7. Read the introductory part of Section IV. At the bottom of page 74 is the monopolist's profit function. Substitute in all the simplifications we made in parts (3) and (6) of this assignment. Graph the resulting profits as a function of θ . Show where θ is maximized on your graph.
8. Skim Section IV, parts A, B, and C, but then read part D carefully.
9. Skim the rest.