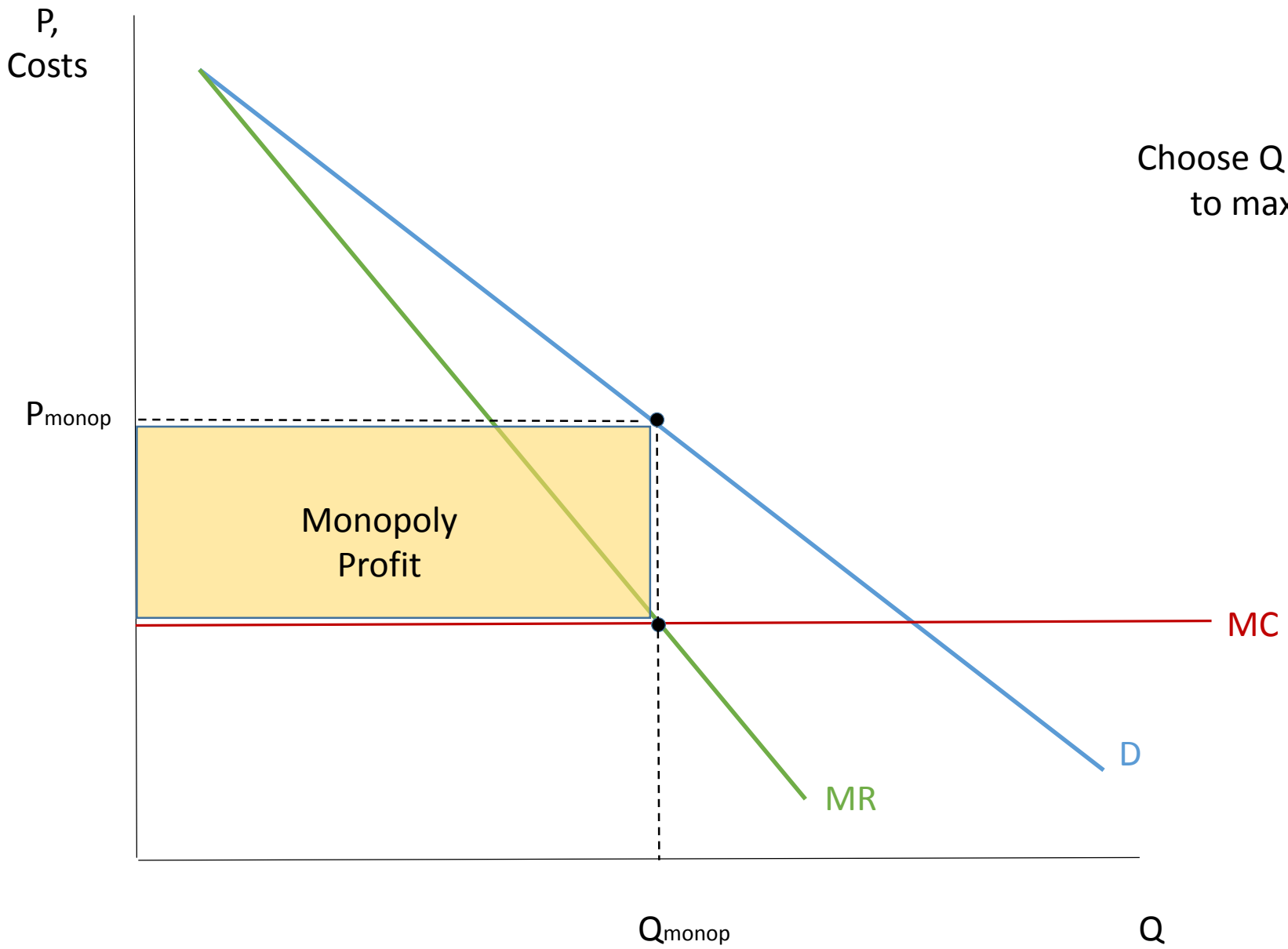
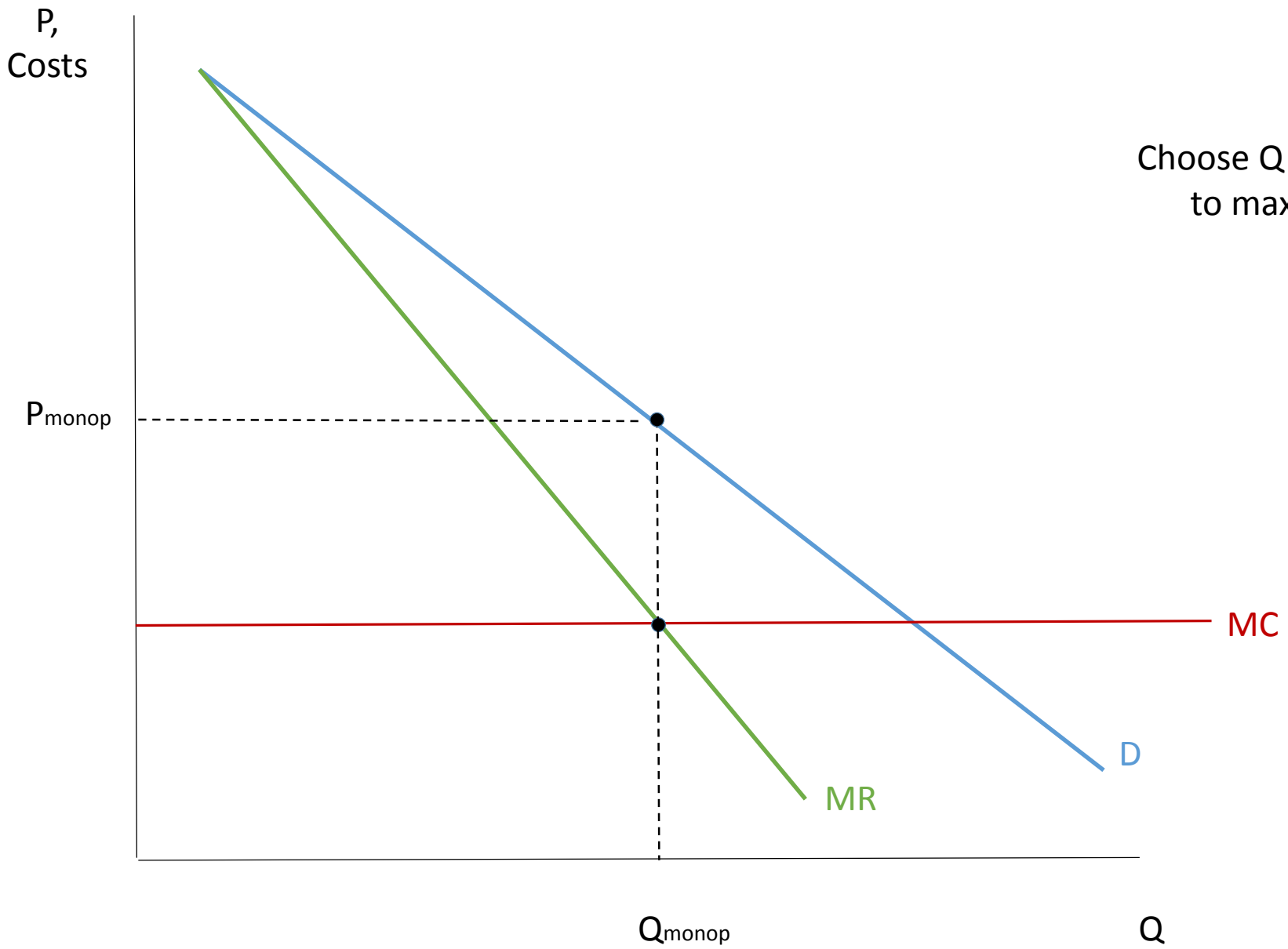
Brand drug without generic competition



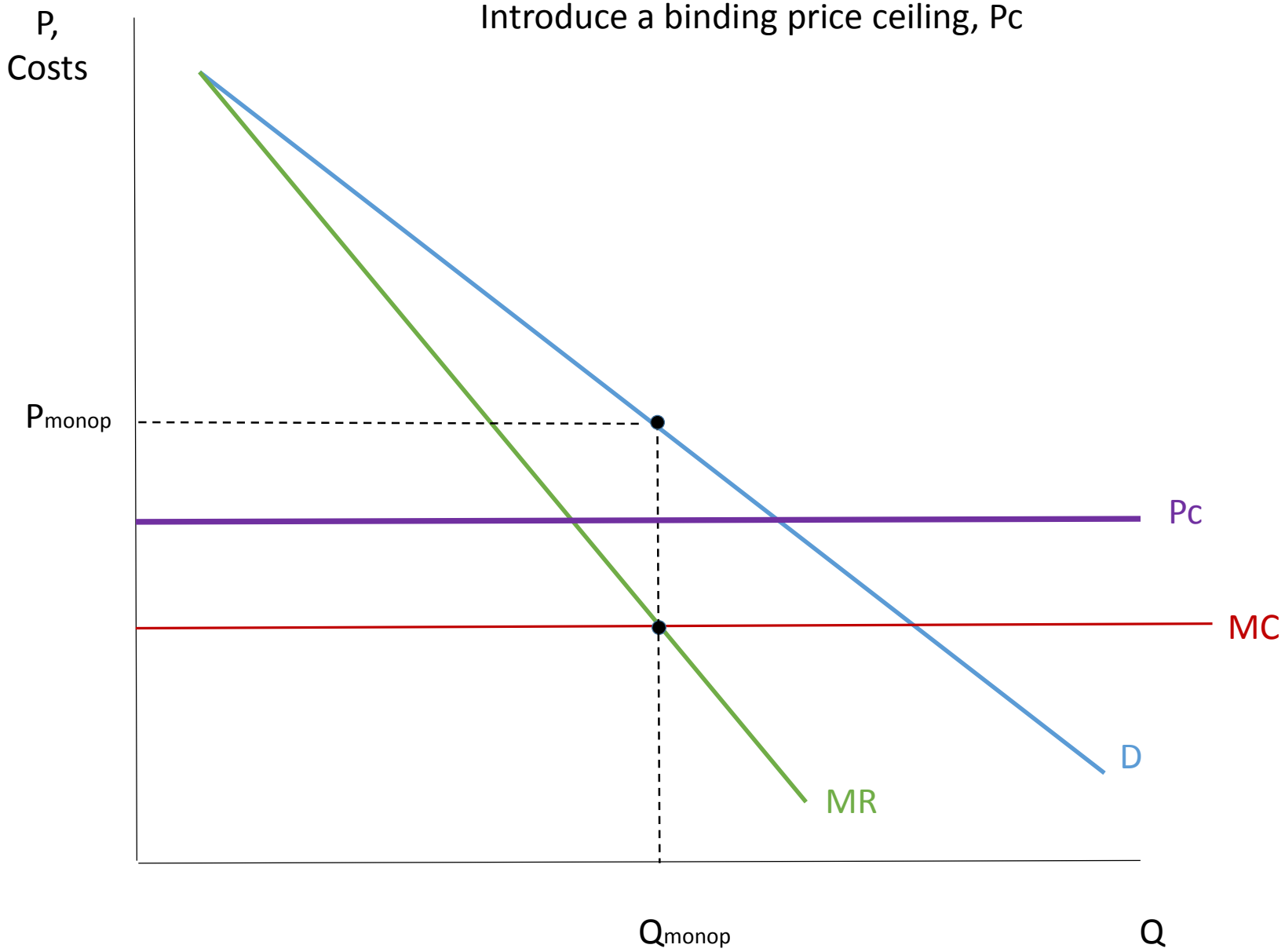
Choose Q where MR=MC
to maximize profit

Brand drug without generic competition



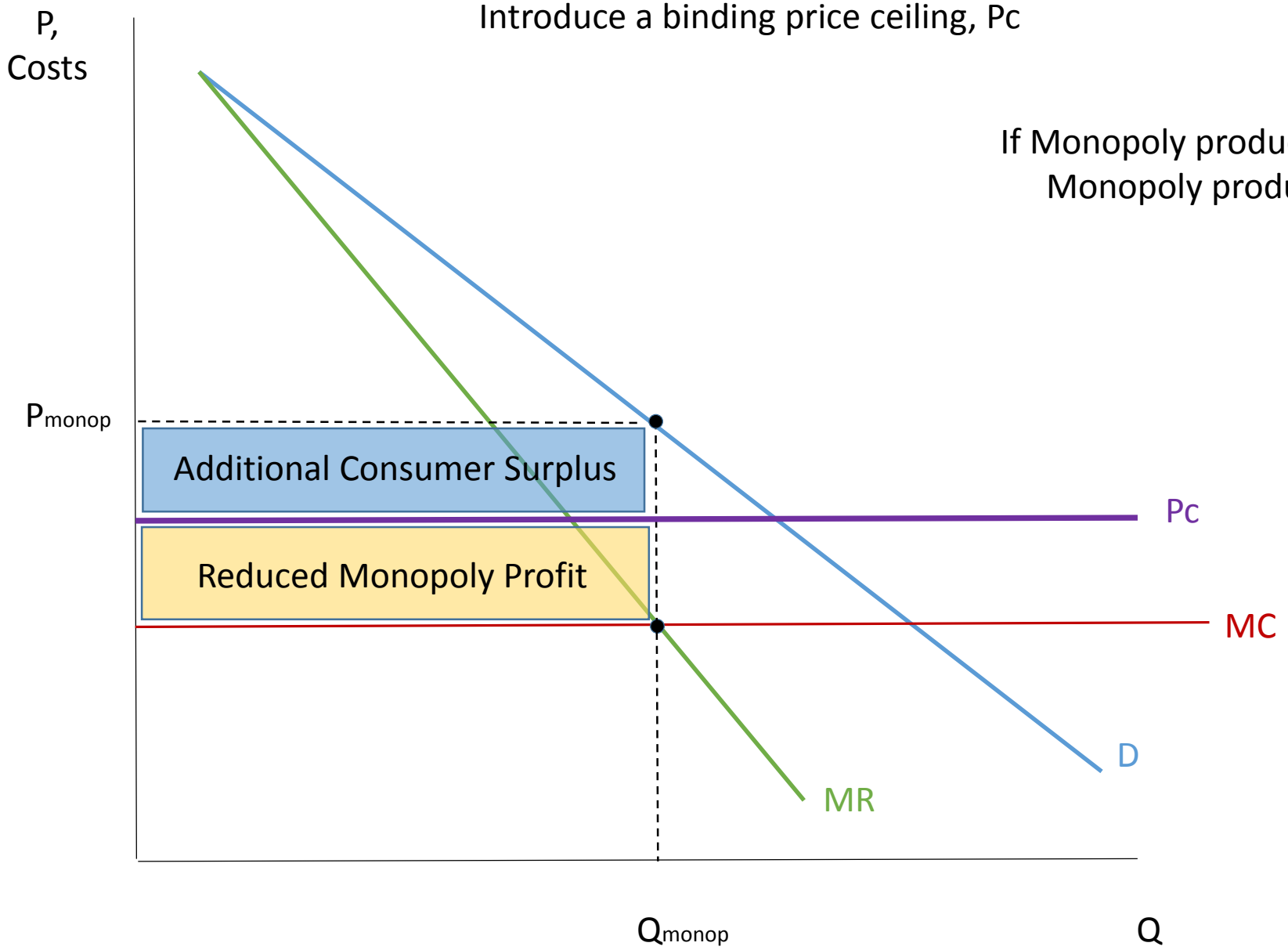
Choose Q where MR=MC
to maximize profit

Brand drug without generic competition:
Introduce a binding price ceiling, Pc

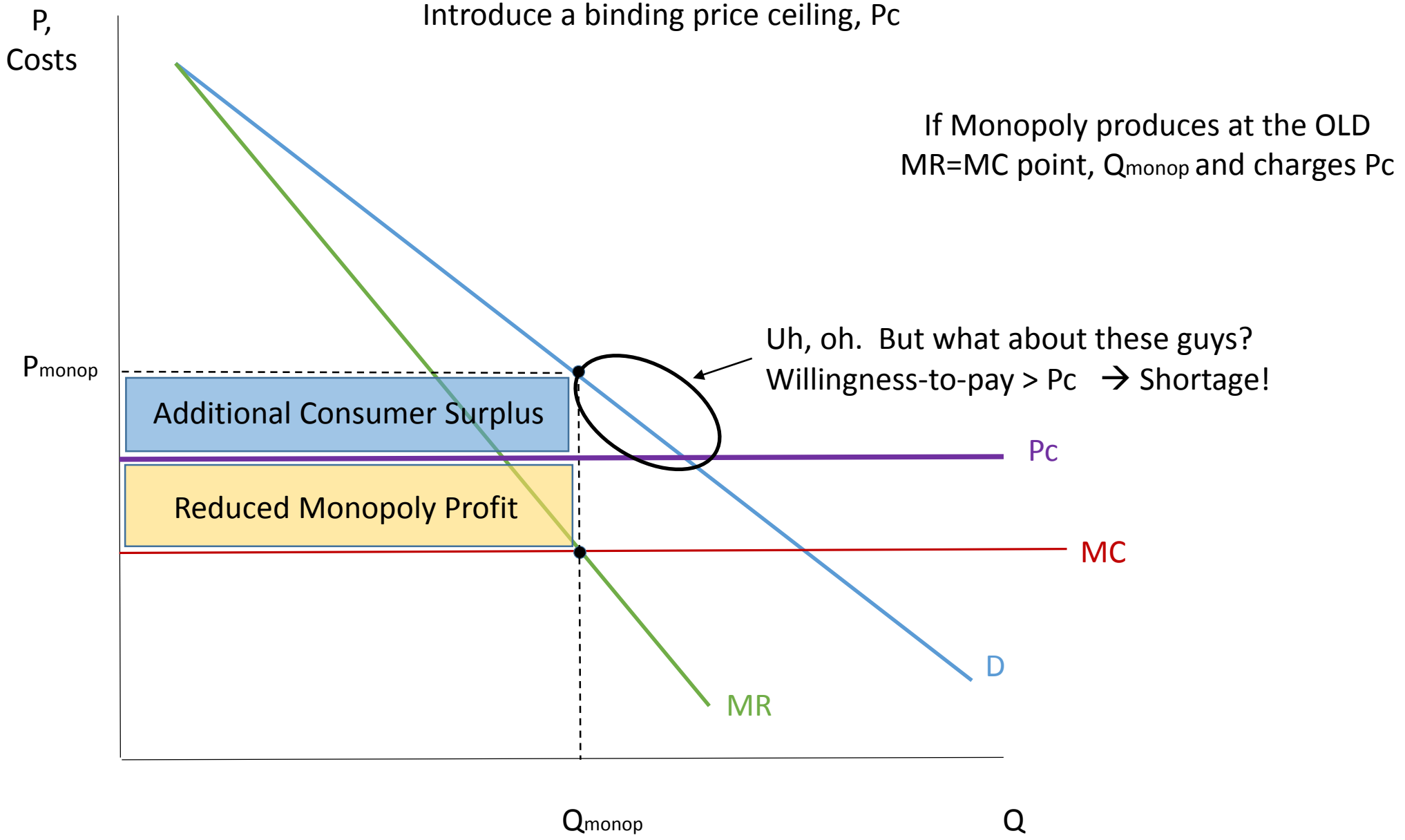


Brand drug without generic competition:
Introduce a binding price ceiling, Pc

If Monopoly produces at the OLD MR=MC point,
Monopoly produces Q_{monop} and charges Pc



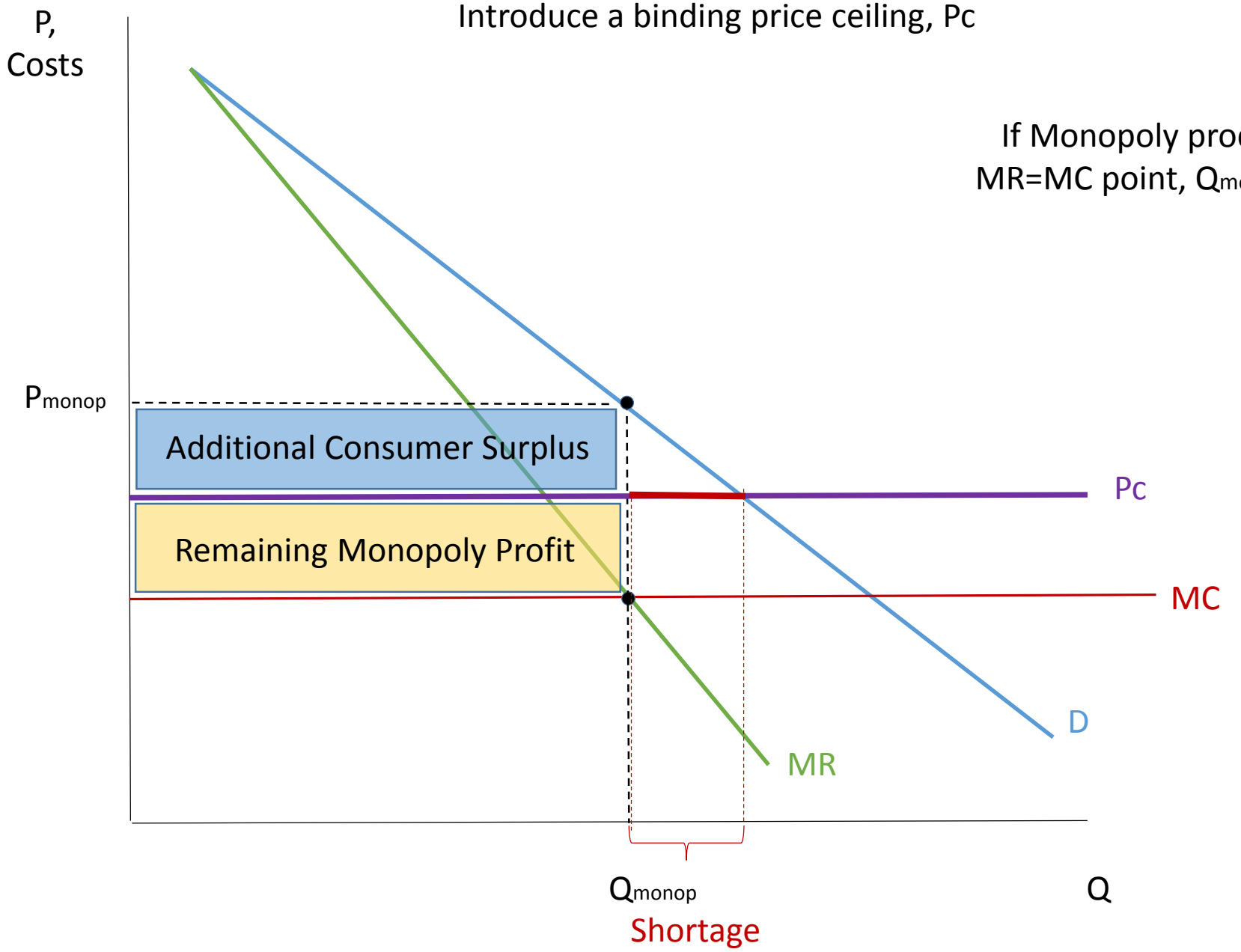
Brand drug without generic competition:
Introduce a binding price ceiling, Pc



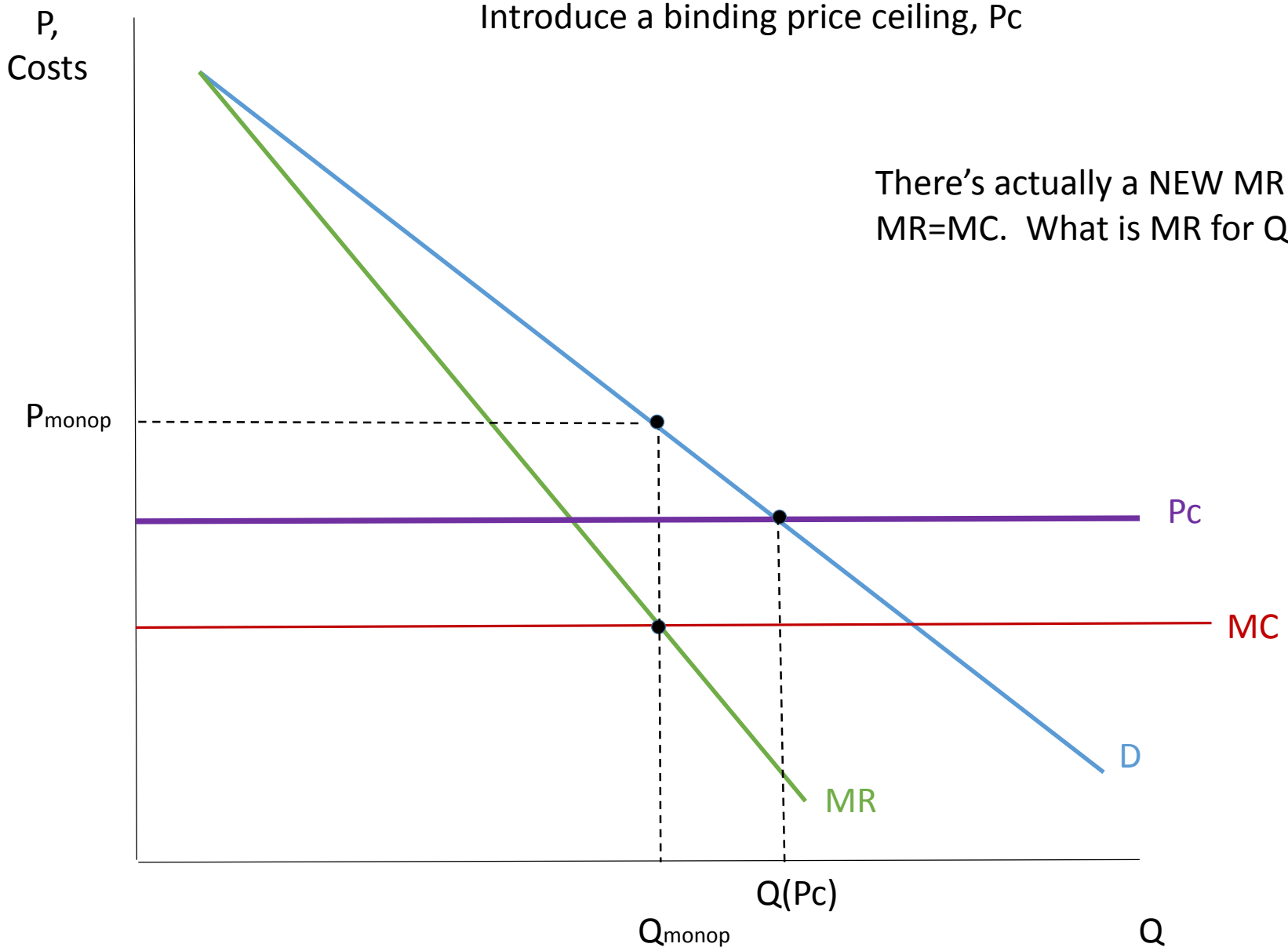
If Monopoly produces at the OLD MR=MC point, Q_{monop} and charges Pc

Uh, oh. But what about these guys?
Willingness-to-pay > Pc → Shortage!

Brand drug without generic competition:
Introduce a binding price ceiling, Pc

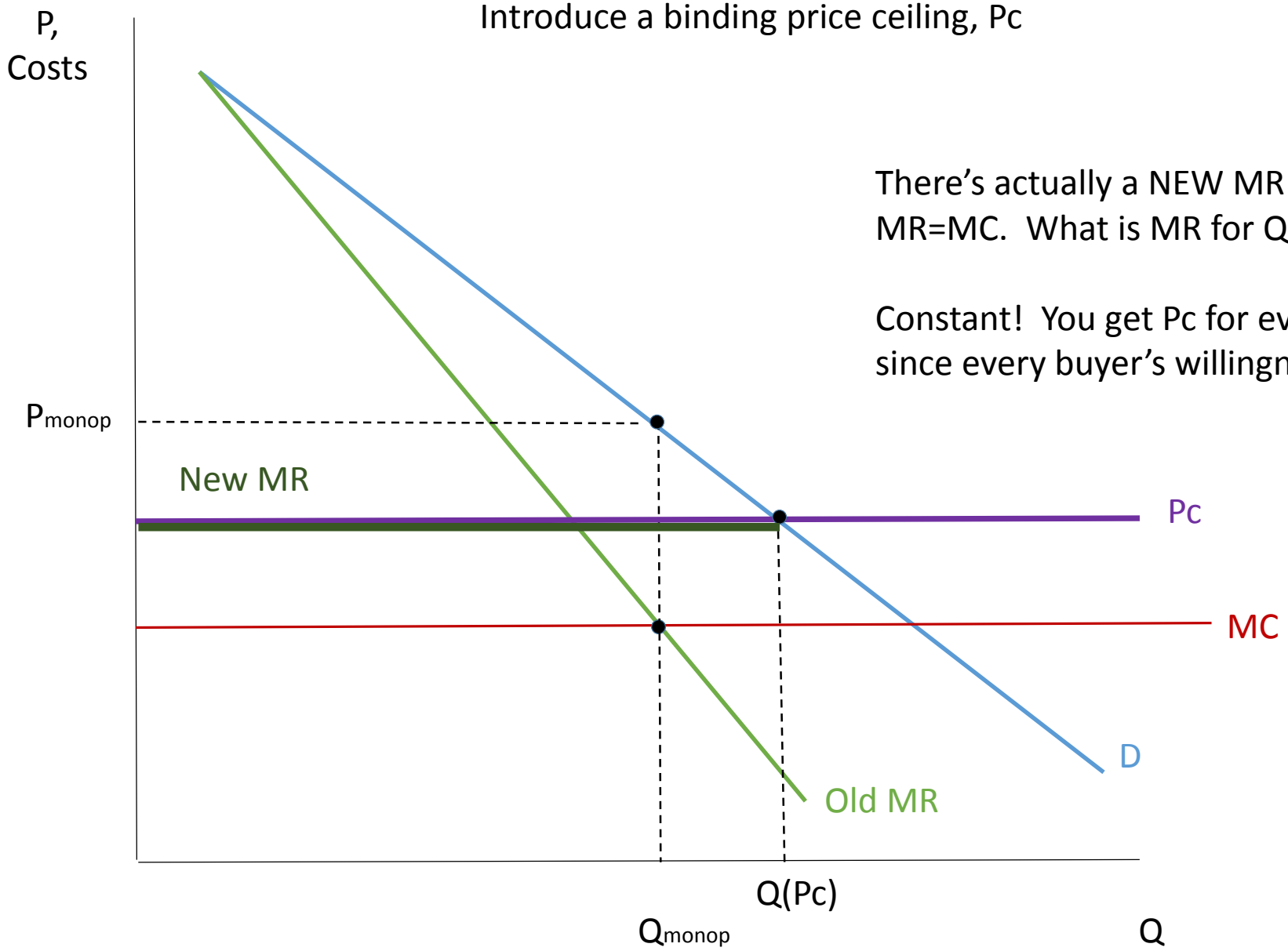


Brand drug without generic competition:
Introduce a binding price ceiling, Pc



There's actually a NEW MR curve to equate MR=MC. What is MR for Q<Q(Pc)?

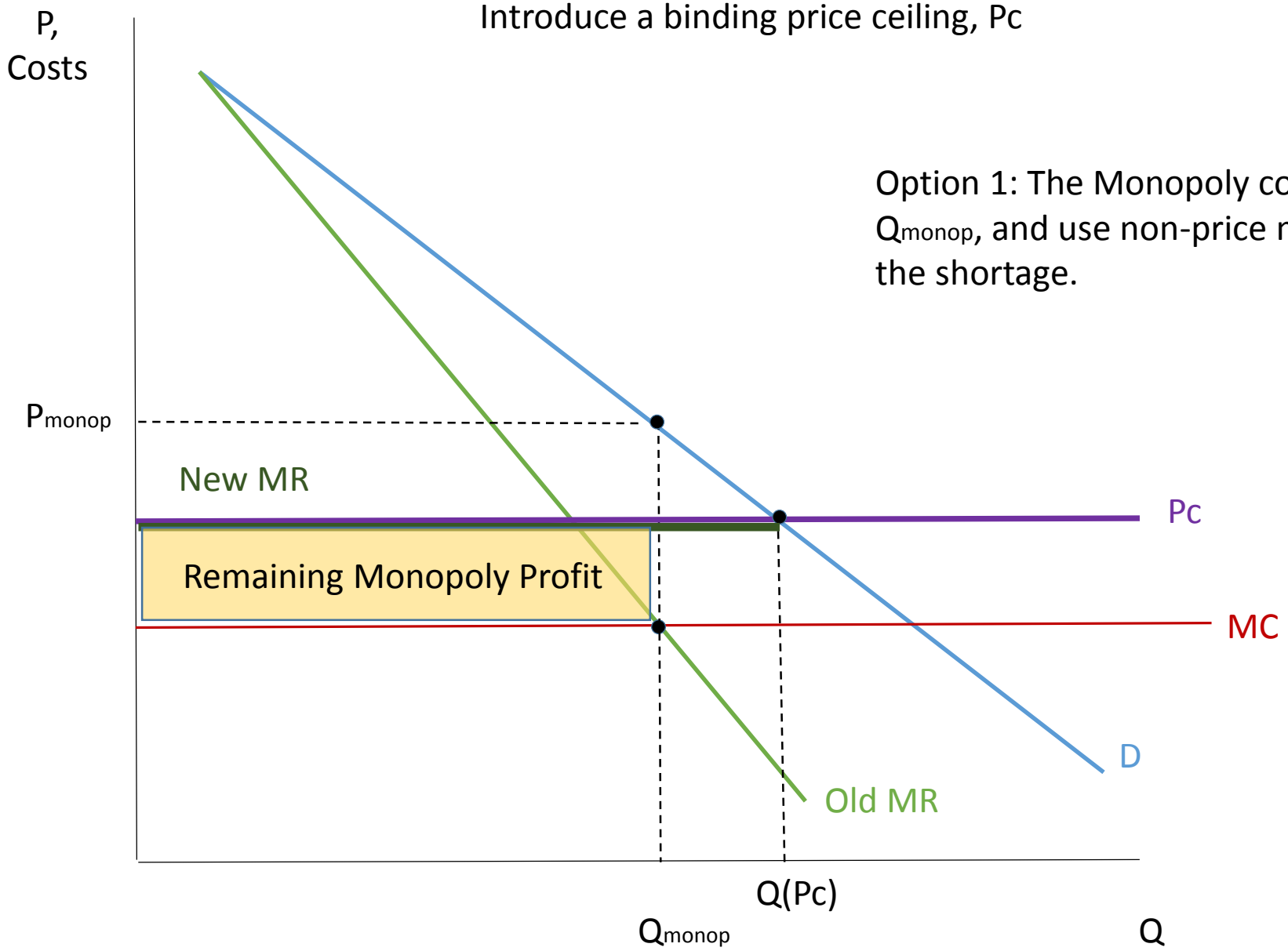
Brand drug without generic competition:
Introduce a binding price ceiling, Pc



There's actually a NEW MR curve to equate MR=MC. What is MR for Q<Q(Pc)?

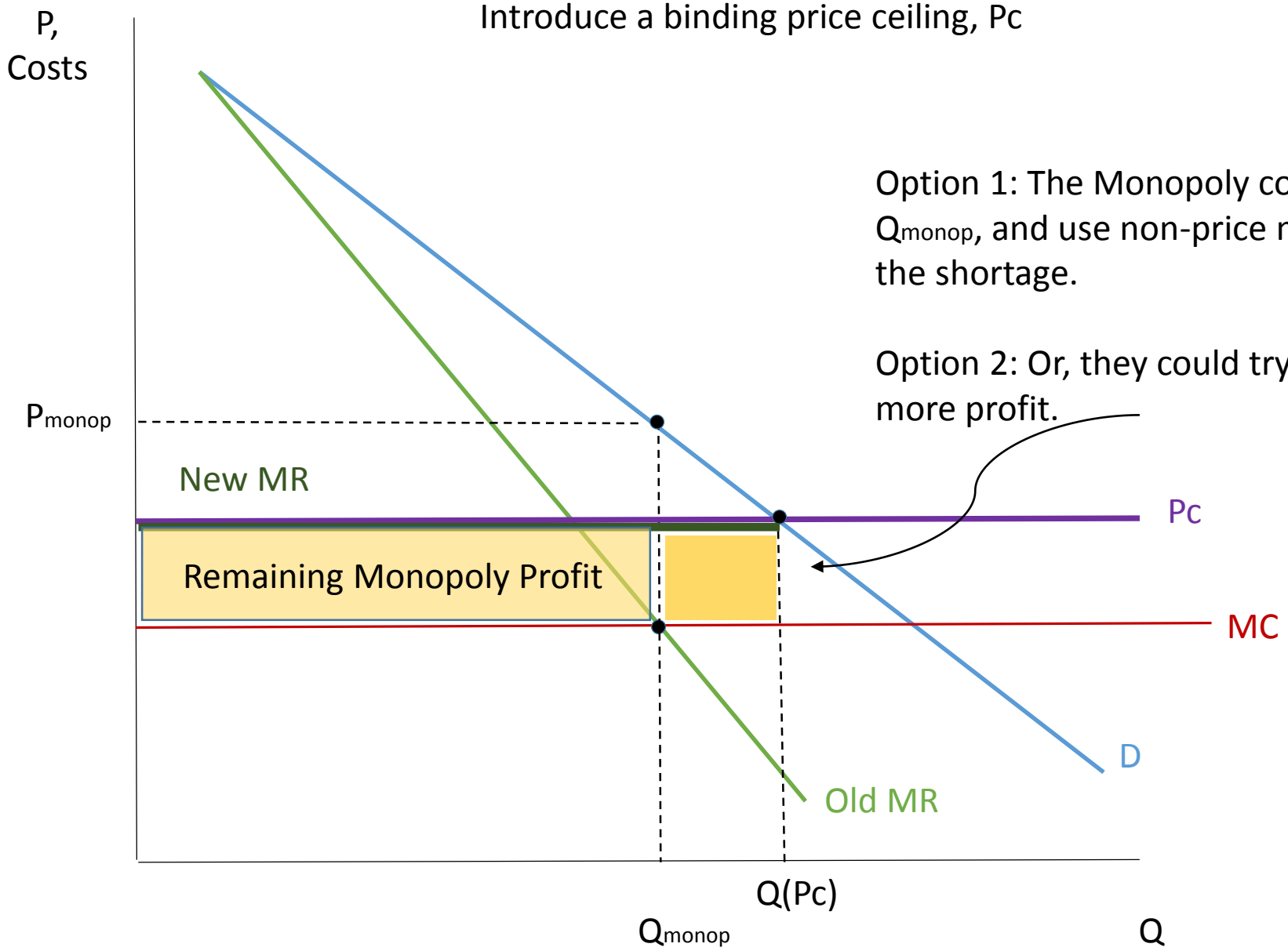
Constant! You get Pc for every Q you produce, since every buyer's willingness-to-pay is >Pc

Brand drug without generic competition:
Introduce a binding price ceiling, Pc



Option 1: The Monopoly could keep producing Q_{monop}, and use non-price methods to allocate the shortage.

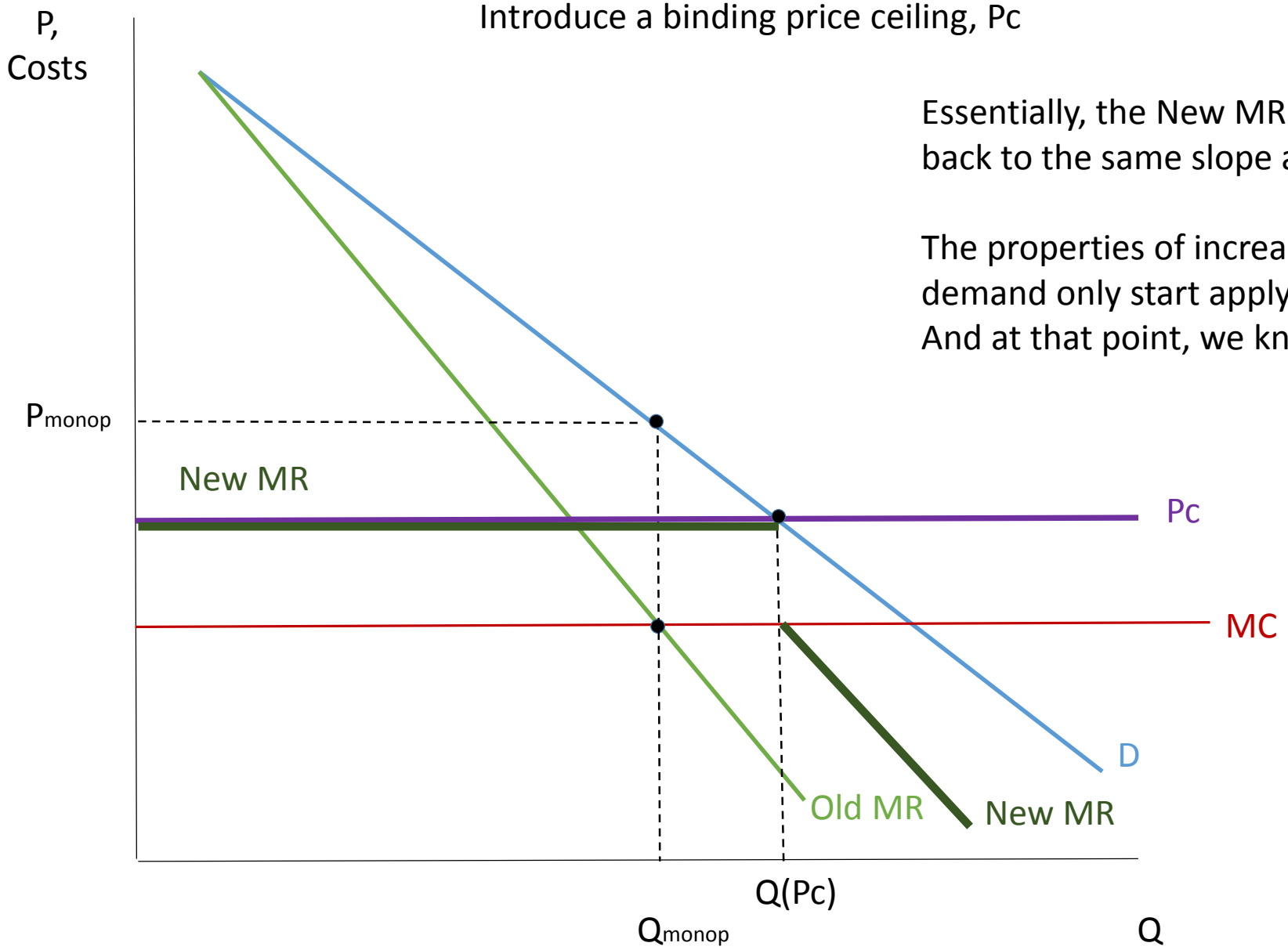
Brand drug without generic competition:
Introduce a binding price ceiling, Pc



Option 1: The Monopoly could keep producing Q_{monop}, and use non-price methods to allocate the shortage.

Option 2: Or, they could try and grab some more profit.

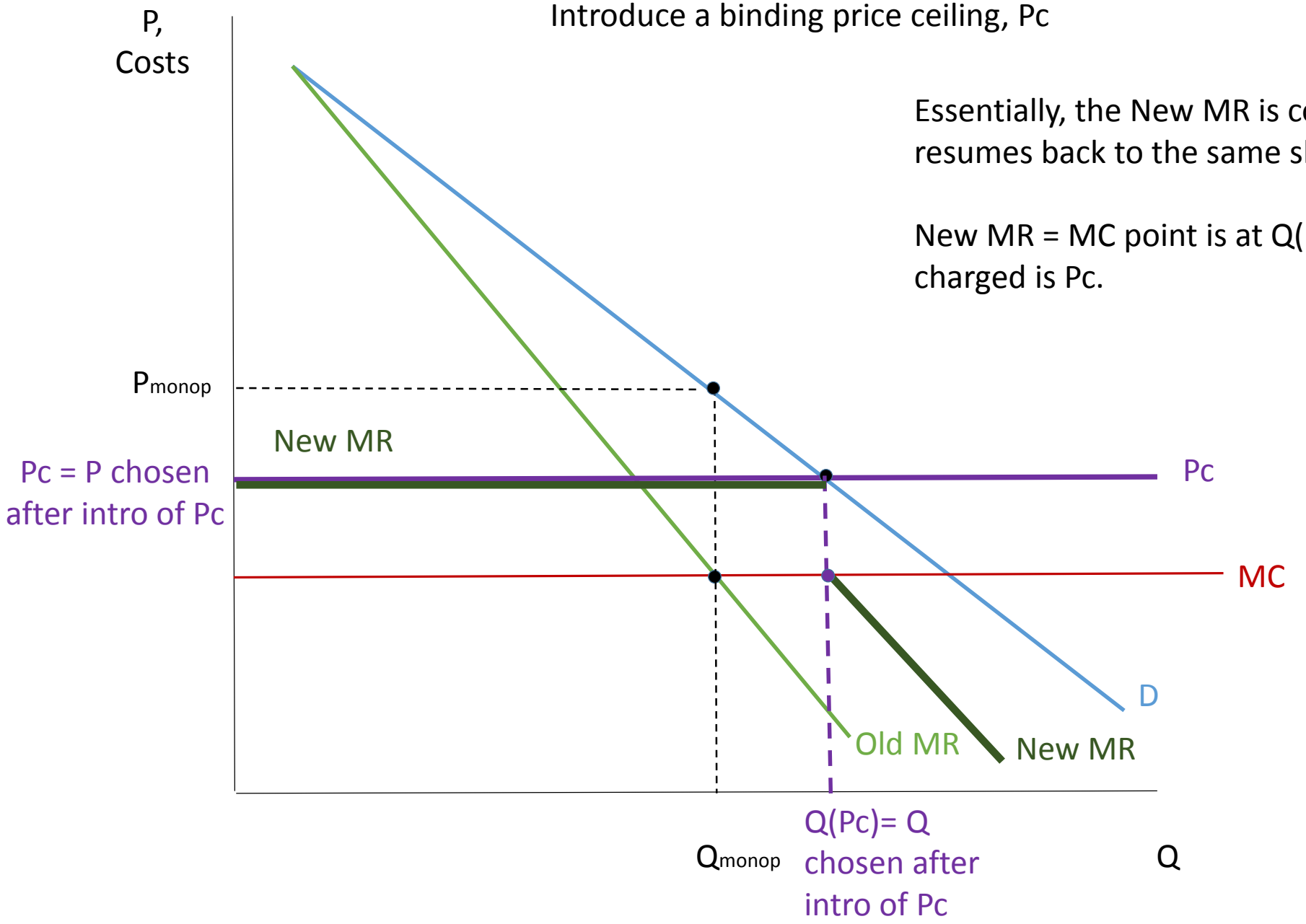
Brand drug without generic competition:
Introduce a binding price ceiling, Pc



Essentially, the New MR is constant, then resumes back to the same slope as before, but with a break.

The properties of increasing price, decreasing demand only start applying after the Q(Pc) point. And at that point, we know that MR<MC.

Brand drug without generic competition:
Introduce a binding price ceiling, Pc



Essentially, the New MR is constant, then resumes back to the same slope with a break.

New MR = MC point is at Q(Pc), and price charged is Pc.

Brand drug without generic competition:
Introduce a binding price ceiling, Pc

New MR = MC is Q(Pc), and price charged is Pc.

Monopoly gains some profit from Option 1, but less than Profit compared with no Pc (since that was profit-max).

Consumers gain surplus compared with Option 1 and no Pc.

There is still deadweight loss, but less than before Pc.