Suppose the wholesaler sets a wholesale price of $18. The good must still be retailed.

Retail competition drives the retailing cost to its minimum, say $7, so the retail price is $25.
If demand were 900,000 units, there would be 90 retailers.

**The Inverse Demand Function**

\[
P_R = R(Q) \\
P_W = R(Q) - 7
\]

- If the retailer’s function is solely distribution, the manufacturer wants the gap between \(P_R\) and \(P_W\) as small as possible.

**Equilibrium**

The difference between the wholesale and retail demand functions is the distribution cost.

**Determining the Wholesale Price**

\[
P_W = R(Q) - 7
\]
Determining the Retail Price

\[ P \]
\[ P_{R} \]
\[ P_{W} \]
\[ MC \]
\[ Q^{*} \]
\[ Q \]
\[ D_{R} \]
\[ D_{W} \]

End

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