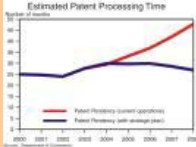


## Innovation and Durability



## Bringing New Technologies to Market

- Does a monopoly have the incentive to be an innovator and bring new products to market?

## Bringing New Technologies to Market

- Does a monopoly have the incentive to be an innovator and bring new products to market?
- Many argue that firms like Microsoft, which arguably has a monopoly on operating systems, do not have the right incentives to produce new more innovative operating systems.

## An Example

Willingness to pay for a Word Processing Program

<i>Smith</i>	\$10
<i>Jones</i>	\$20
<i>Wilson</i>	\$30
<i>Green</i>	\$40
<i>Brown</i>	\$50

## Sales at Different Prices

Sales at Different Prices		
Price	Sales	Total Sales
\$10	5	\$50
\$20	4	\$80
\$30	3	\$90
\$40	2	\$80
\$50	1	\$50

## The Next Step

- After selling the word processing program to Wilson, Green and Brown, the monopolist can develop a new version of the software package for which everyone would be willing to pay an additional \$10.

## The Next Step

Willingness to pay for a Word Processing Program

<i>Smith</i>	\$10 \$20
<i>Jones</i>	\$20 \$30
<i>Wilson</i>	\$30 \$40
<i>Green</i>	\$40 \$50
<i>Brown</i>	\$50 \$60

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to

## The Next Step

- The cost of producing the software package is \$25.
- Development is a desirable step, but will the monopolist do it?

## Here's How

- He offers the package as an "upgrade" option to Wilson, Green and Brown and as a new package to Smith and Jones for \$20.

## The Calculations

Willingness to pay for an Word Processing Program

<i>Smith</i>	\$10 \$20
<i>Jones</i>	\$20 \$30
<i>Wilson</i>	\$10
<i>Green</i>	\$10
<i>Brown</i>	\$10

## The Calculations

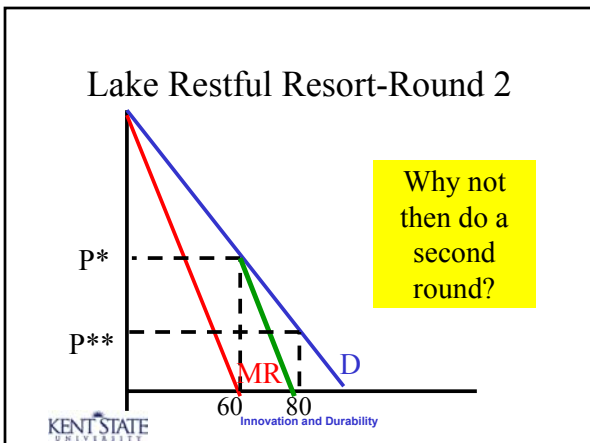
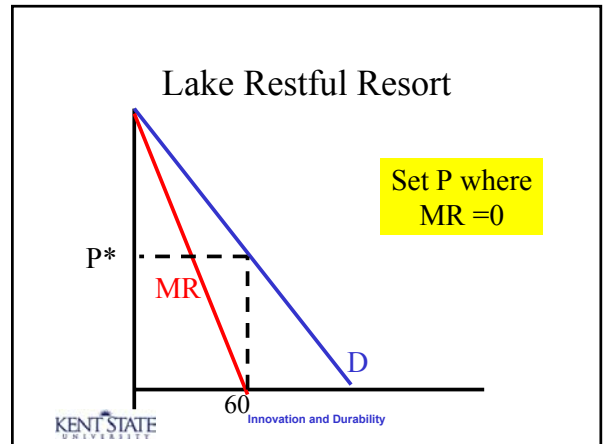
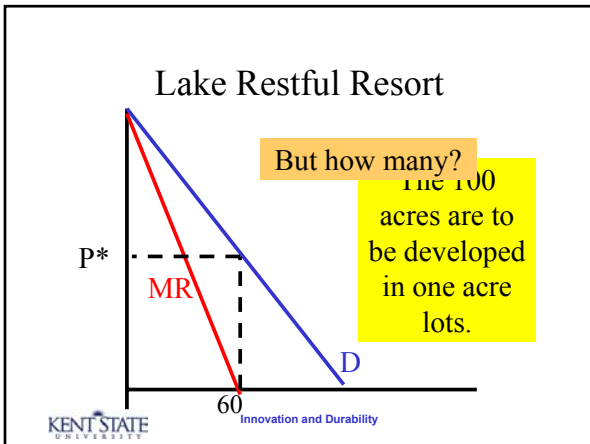
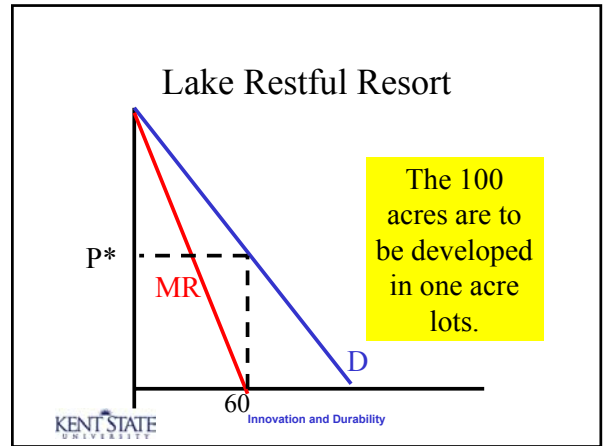
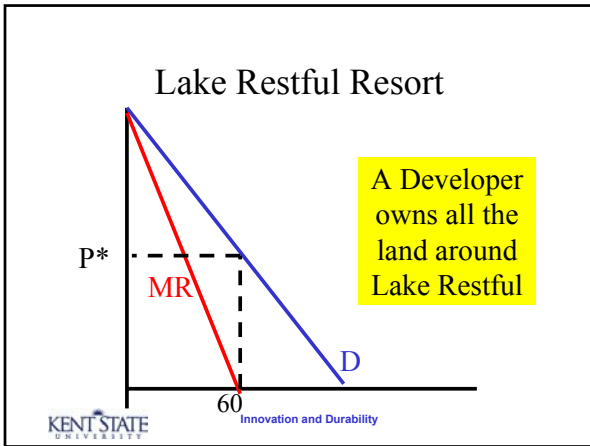
Willingness to pay for an Word Processing Program

<i>Smith</i>	\$10 \$20
<i>Jones</i>	\$20 \$30
<i>Wilson</i>	\$10
<i>Green</i>	\$10
<i>Brown</i>	\$10

Monopolists will innovate if there is a profit opportunity.

## Durability

Lake Restful Resort



### The Problem

- Everyone knows the developer can proceed with round two.
- Thus no one will buy in round one, unless given assurances.

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## The Problem

- Everyone knows the developer can proceed with round two.
- Thus no one will buy in round one, unless given assurances.
  - Deed land to nature preserve.
  - Guarantee in writing no second round.

## The Christmas Problem

- Think Christmas. It is November. Wonder Toys has produced 60 **Wonder Toys®**. It will be impossible to produce any more for the Christmas Season.

## The Christmas Problem

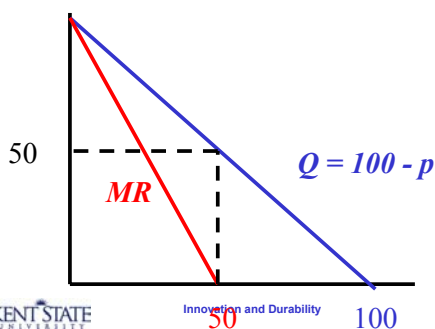
- Think Christmas. It is November. Wonder Toys has produced 60 **Wonder Toys®**. It will be impossible to produce any more for the Christmas Season.
- The demand is

$$Q = 100 - p$$

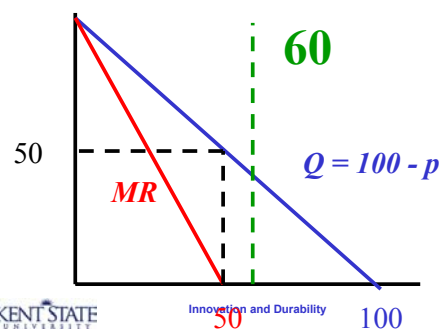
## The Christmas Problem

- Think Christmas. It is November. Wonder Toys has produced 60 **Wonder Toys®**. It will be impossible to produce any more for the Christmas Season.
  - The demand is
- $$Q = 100 - p$$
- How many **Wonder Toys®** should be donated to Charity?

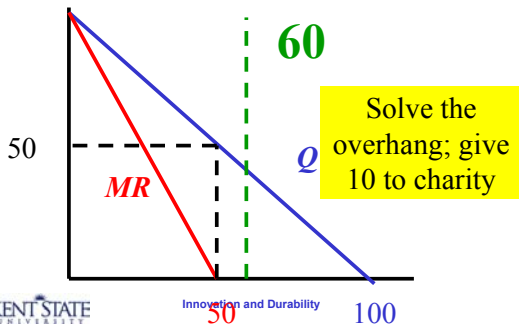
## The Christmas Problem



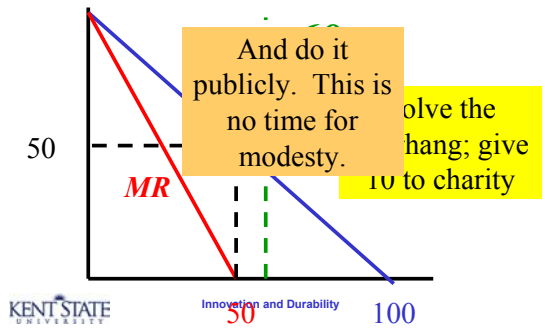
## The Christmas Problem



## The Christmas Problem



## The Christmas Problem



## The New Condo

- A new condominium apartment building comes on the market. How does a potential buyer protect against this scam?

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- This is *not* just the buyer's problem. The seller must assure the buyer or there will be no buyer.

## The New Condo

- A new condominium apartment building comes on the market. How does a potential buyer protect against this scam?
- This is not just the buyer's problem. The seller must assure the buyer or there will be no buyer.
  - Early buyer discounts.
  - Written promises not to discount.

## This Month's New Computer

- In the heyday of rapid technology of new computers, buyers of a new computer faced the risk that a new more powerful computer would come out the next month, with significantly better bang for the dollar.
- IBM solved this problem by offering to lease computers.

End

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