Youngberg

Econ 280—Bethany College

**Homework 08**

Answer all the following on a ***typed, stapled*** (if applicable)separate sheet of paper. You do not need to type equations and graphs. I charge 25 cents to staple your homework. Make sure that you justify your answers, use your own words, and show your work. All questions are equally weighted.

1. For each the following ideas, select which strategy (patents/copyrights, first mover advantage, or trade secret) would likely be the most successful way to profit from the idea. Briefly justify your answer.
   1. After a great deal of time and effort, Nanoo Biomedical develop a cure for HIV using nanite technology, the virus which causes AIDS. Many other companies are working on a cure using a similar technology.
   2. After hiring a product design specialist for just $40,000 a year, Verizon designs a new look for its cell phone which has many potentially new customers excited (but only for a while).
   3. For just $60,000 a year, Rolling Jade, Inc. (a mining company) hires an engineer who develops a new mineral extraction technique which saves the company $20,000,000 a year.
   4. After very little time and effort, the financial consulting firm of Toy and Stone develop a new filing system which saves the company millions of dollars every year for the foreseeable future. They know many other companies are trying to develop a filing system which accomplishes the same thing (Toy and Stone got lucky which is why they figured it out so quickly).
2. With the invention of Steam (software which allows you to buy and download video games directly to your computer), the gaming industry is remaking itself. Under this system, can we all be the marginal cost consumer of video games (keep in mind the marginal cost of producing a video game thanks to Steam)? Justify your answer.
3. Consider a monopoly which makes steel and a monopoly which builds cars (made largely with steel). Suppose that these firms plan on merging into one company. Why would this integration cause the price of cars to fall *and* the profit of the combined monopoly to rise (compared to the combined profits of separate monopolies)?
4. Describe an example of the tragedy of the anti-commons, excluding the examples of runways and patents. (It may be useful to use an example where property rights are explicitly forbidden.)
5. Describe an example of rent seeking. Do not use examples from the lecture notes.