

## 14.27 Problem Set #1

Due on the day of lecture on Competition and Oligopoly Pricing.

1. On page 30 of the paper "Search, Obfuscation and Price Elasticities on the Internet," by Glenn Ellison and Sara Fisher Ellison (<http://web.mit.edu/gellison/www/search.pdf>), there is a 3x3 table of cross-elasticities for three different kinds of memory chips. A firm marketing these three goods hires two consultants to help decide on prices. The first consultant, a Harvard student, does not understand the cross-good effects and treats each good as a separate problem. The second, an MIT student, tries to optimize total profits taking into account all effects. What prices does each consultant recommend? What is the difference between the profits resulting from each recommendation? Assume that the costs of the 3 products are \$110, \$115 and \$125.

2. Find three products advertised or sold over the internet with Senior Citizen's discounts. What are they, and how big are the discounts? Do the same products feature student discounts? If so, how large are they?