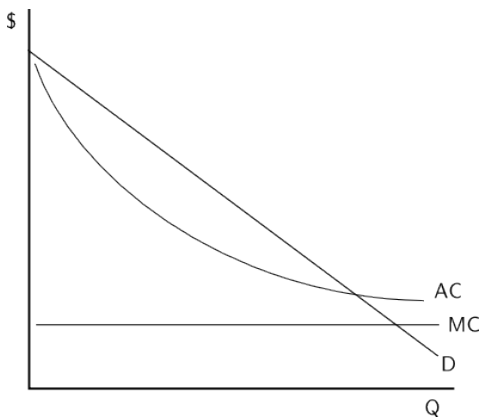


ECON 224, Prof. Hogendorn

Problem Set 6

1. Suppose the government wanted to sell a franchise to build and operate a toll bridge. Use the diagram below to show why selling to the highest bidder might not be a good idea.



2. Correct this statement using the term **sunk costs**: In ruinous competition, firms lower their prices until one firm exits the market and a monopoly is all that is left.
3. Correct this statement using the term **cross-subsidy**: one time the US government decided to nationalize all the railroads in the north-eastern US so that it could regulate them.
4. Correct this statement: Under price cap regulation, the government lowers a public utility's price year-by-year by amount ($RPI-X$) until it goes out of business.