ECON 224, Prof. Hogendorn

Problem Set 7

1. *ATT-TMobile*. Sorry, more cellphones. In 2012, there was a Senate hearing on the then-proposed AT&T / T-Mobile merger:

   (a) "When I was a kid," said Senator Al Franken (D-MN), "every Sunday at exactly 9am in Minnesota, my grandmother would call from New York and talk to my father for precisely three minutes." He was speaking about AT&T's very high long-distance charges in the regulated era. When Franken was a little older, the government unbundled (and structurally separated) long distance telephone from local. Why did this help lower long-distance rates?

   (b) One of the most interesting statements came from Dan Hesse, CEO of Sprint Nextel: "[the merger] would fundamentally put us in a situation where this is a duopoly (industry) and it puts us in position to be acquired." A skeptic would say that having fewer competitors means Sprint could raise its prices. So what could be behind this thinking? (There are many possibilities spanning topics from the entire class – think of economies of scale, raising rivals' costs, ruinous competition, etc.)

2. Suppose an Internet service produces private benefits that are apparent to an ISP or Internet platform of $MPB = 10 - q$. (This is a downward-sloping 45-degree line that intercepts both the vertical and horizontal axes at 10.) In addition to this MPB, the Internet service produces an additional benefit of \$3 per unit that is external from the point of view of the ISP/platform. If the platform

charges price 0 to deliver this service, what quantity will be offered? If the ISP/platform starts charging $1 to deliver the service, what quantity will be offered? Assuming the MC of the delivery is 0.5, what is the deadweight loss (graphically)?