

Worksheet 2: Monopoly Money

In this worksheet, we will be looking at the effects of competition (or the lack of competition) on both consumers and producers. In particular, we will be looking at how competition affects a local gas station.

For questions 1-3, answer as if you were the *owner* of your own gas station.

1. Currently, you are the only gas station for 40 miles. The average price of gasoline in your state is \$3.50 per gallon. How much should you charge for your gasoline?
2. A new gas station has just opened across the street from your own station. Looking to take some of your customers, the new shop sets their prices at \$3.60 per gallon. Will you change your prices? Why or why not?
3. If you do not change your prices, how else might you convince customers to come to your station instead of the competition? (Provide at least 3 ideas).
4. Based on your answers to questions 1-3, who do you think benefits from competition? Who benefits from a monopoly?

As it turns out, building a new gas station can be extremely expensive. The price of gas is directly related to the cost of drilling for oil. And before companies can drill for oil they must invest in millions of dollars of equipment and labor.

For the following questions, assume that geologists have just uncovered a new source of oil (approximately 3 derricks worth).

The table below shows the cost of oil derricks for an individual company. As companies invest in more derricks, their costs decrease:

| | |
|------------------------|--------------|
| Cost of First Derrick | \$50 million |
| Cost of Second Derrick | \$30 million |
| Cost of Third Derrick | \$25million |

5. If one company decides to build all 3 derricks, what is the total cost?

6. If three different companies each build *one* derrick each, what is the total cost?

7. Which is more costly, competition (multiple companies) or monopoly (one company)?