

Rights Management

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Slide 1

Baseline profit maximization

y = amount read

$p(y)$ = demand curve

Profit maximization:

$$\max_y p(y)y$$

Solution: Optimal (p^*, y^*)

Slide 2

More liberal terms and conditions

New amount consumed: $Y = by$, $b > 1$.

New demand curve: $P(Y) = ap(Y)$, $a > 1$.

Profit-maximization problem:

$$\max_Y P(Y)y.$$

Substitute:

$$\max_Y ap(Y)\frac{Y}{b} = \max_Y \frac{a}{b}p(Y)Y.$$

Slide 3

Conclusions

- The amount of the good consumed, Y^* is independent of the terms and conditions.
- The amount of the good produced is y^*/b which is less than y^* .
- The profits could go up or down depending on whether a/b is greater or less than 1.
- Profits go up if the increase in value to the consumers who buy the product compensates for the reduced number of buyers.