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Quizzes and Communications

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Question 2003. X.2. Firm A has recently developed a new product called K, and may enjoy a monopolistic position, though a substitute for K, can be developed. Firm B wants to buy K on a long term basis at a reasonable fixed price. However, B has no information about either A's pricing policy or potential competition. B can only guess: A's average cost plus the "normal profit" is anywhere between \$20 and \$25; A won't tolerate new entries, so in order to prevent new entries A may set his price at his average cost plus the "normal profit", but the range of A's entry preventing price is upwardly open ended. What is the probability that A will charge less than \$28 from B's viewpoint?

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