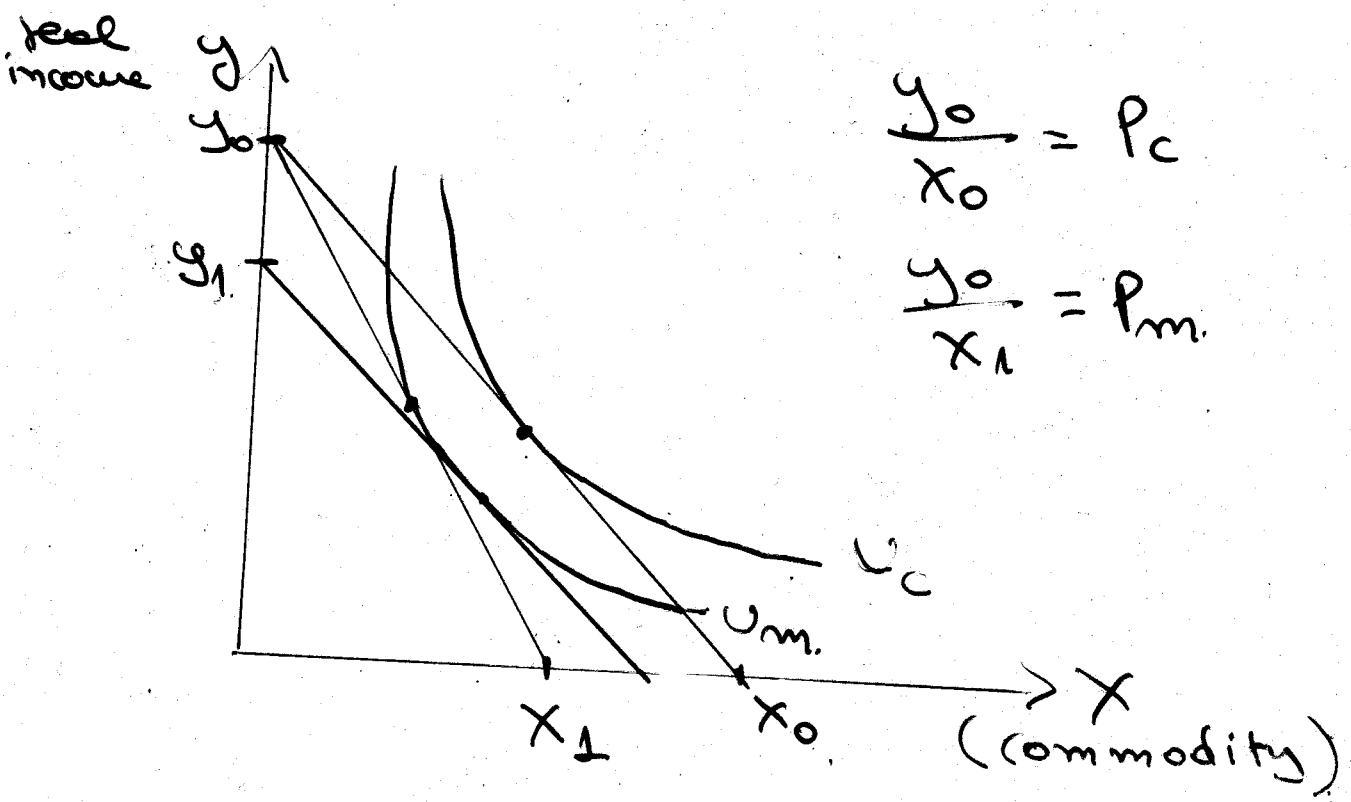
Compensating Variation



$$\frac{y_0}{x_0} = P_c$$

$$\frac{y_0}{x_1} = P_m$$

$$CV = y_0 - y_1$$

↳ the maximum amount the consumer is prepared to pay the monopolist to get him to abandon his monopoly and price at P_c while he still remains at U_m

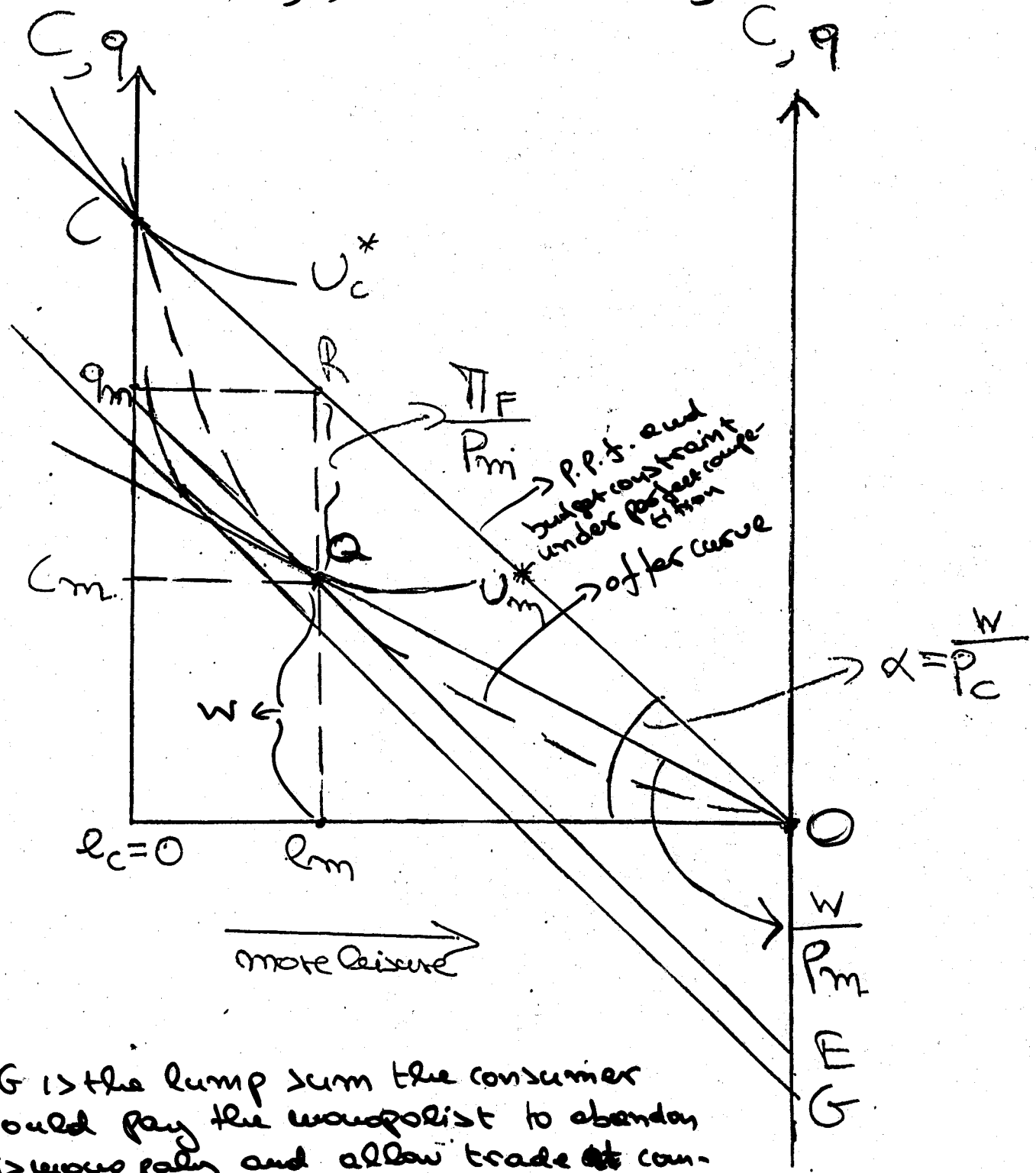
Foreign Monopolist Case.

$\Pi_D = 0$

$C \rightarrow$ consumption, $e \rightarrow$ leisure, $e \in [0,1]$, $l \rightarrow$ labour

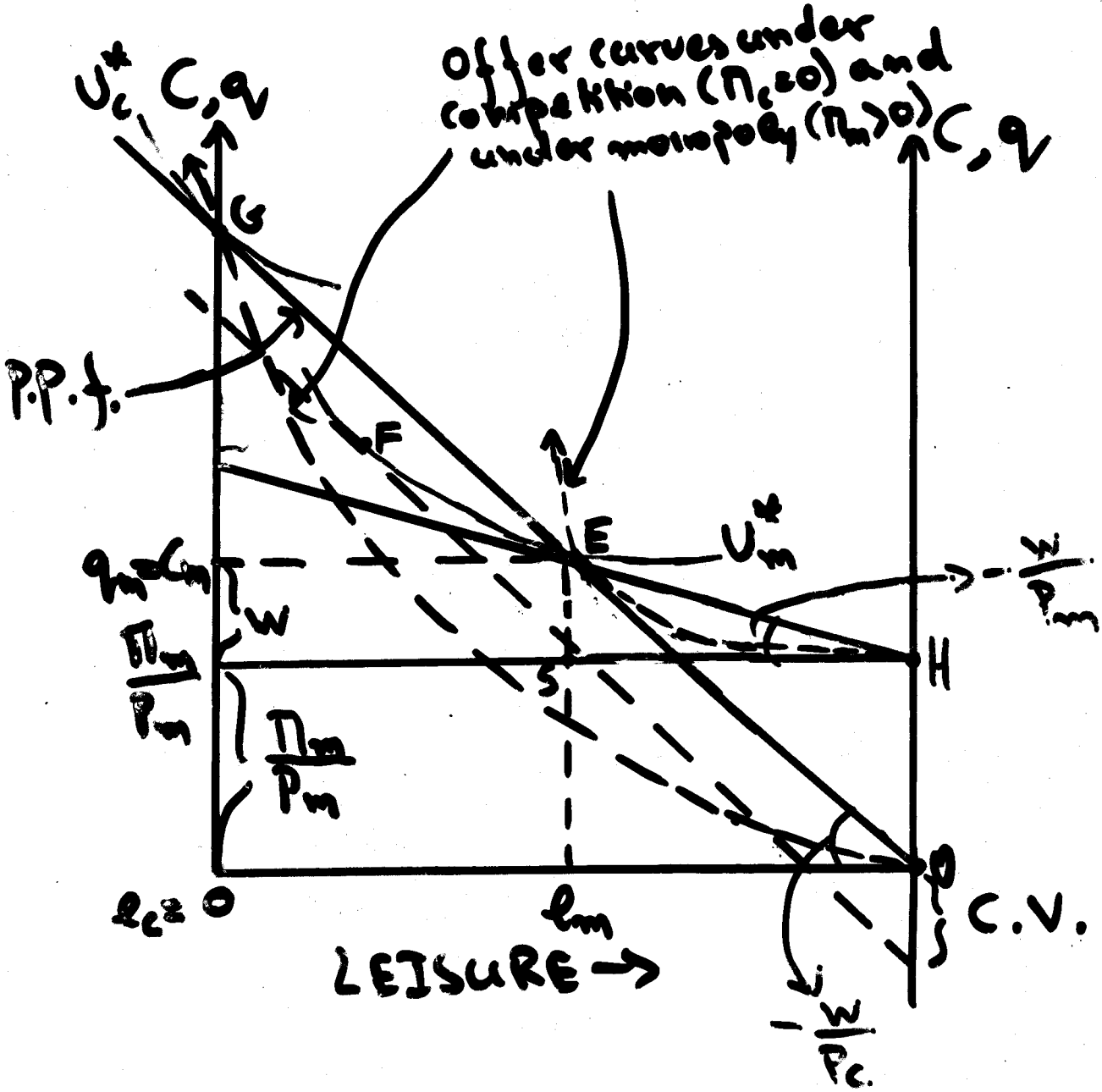
$e + l = 1$

$U = U(C, e) \rightarrow$ consumer's utility function



OG is the lump sum the consumer would pay the monopolist to abandon his monopoly and allow trade at competitive prices, i.e. $\underline{CV} = OG$

Domestic Monopolist Case
$\Pi_F = 0$



The consumer(s) is the beneficiary both of the profits of the monopoly + the wage