Setting Prices Under Bilateral Monopoly

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Bilateral monopoly: both buyer & seller have some market power → they can influence prices.

Bilateral monopoly occurs b/c a surplus is created when buyer & seller meet.

Intuition:

- buyer: matching cost / cost of a visit is sunk at time of match.
- seller: no other opportunities to match if match does not go through
  ↳ seller remains idle if match breaks down (no income)
- both buyer & seller are better off matching now than separating

→ surplus > 0 → bilateral monopoly

Since Edgeworth (19th century), we know that pricing assumption must be made to resolve situations of bilateral monopoly → must assume price mechanism.