

**28. Correct. The answer is true.** Suppose that the bilateral monopoly can agree on the quantity and they are negotiating the price. Now set up the following two player game

Player 1 supplies 1 at reservation price  $c_1$ ,

Player 2 buys 1 at reservation price  $b$ .

The negotiated price  $P$  has to be between  $[c_1, b]$  for trade to take place. If the price is above  $b$  the buyer should drop out and if it is below  $c_1$  the seller should drop out.

Rent of  $b - c_1$ , as shown in the figure below, will be divided between the two players depending on the outcome of the negotiation.

