A report on "Perfecting Imperfect Competition" by Goetz Seisser

This paper proposes a tax scheme on a monopoly's profit to reduce inefficiency caused by the monopoly's low output decision. The tax rate equals $\frac{P-MC}{P}$, which is known as the *Lerner Index* measuring a firm's market power. It is shown that under a fairly general assumption, such a tax on the profit will induce the monopoly to increase its output and thus the deadweight loss will be reduced. The paper also discusses pros and cons of implementing such a tax scheme.

In my view, the contribution of the paper is potentially significant and may be policy relevant if policy makers can sort out the pros and cons of the scheme and find a way to implement it. Formally, I did not find any error in the analysis. However, I find the discussion of the result on page 6 is a bit exaggerating. As the result shows (see equation (10)), *under certain conditions*, the monopolist will increase the output. In the discussion here on page 6, the author states that "[C]oncluding the analysis, the tax-condition unambiguously advances welfare even if it does not necessarily maximize welfare ... . Also the ability alone to achieve theoretical welfare maximum for a monopoly is remarkable." I think that when discussing implications of the analysis, the author should exercise caution.

A minor comment. In equation (11), the denominator p^2 should be p.