

Monopoly definition

The only seller of a good or service which does not have a close substitute.

Narrow definition A firm is a monopoly if it can ignore the actions of all other firms.

Broad definition Other firms in the market are not close enough substitutes

Monopolistic competition

A market structure in which barriers to entry are low, and many firms compete by selling similar, but not identical, products. Difference may be real or artificial.

Has downward-sloping demand and marginal revenue curves. Small amount of control over price.

Oligopoly: A market structure in which a small number of interdependent firms compete.

Every firm that **has the ability** to affect the price of the good or service it sells will have a **marginal revenue curve** that is **below** its demand curve.

Easy entry and exit to the market

Highly but not perfectly elastic.

How monopolistically comp firm maximises profit in the **short run**

1. Calculate Profit = $(P - ATC) \times Q$

2. Profit is maximised or loss is minimised when $MR = MC$

May make money, lose money, or break even.

Long run

Entry of new firms Demand will go down (left)

Monopolistic competition (cont)

Will sell fewer products at every price

Demand curve will become more elastic

Four main reasons monopolies arise

Four reasons for high barriers to entry

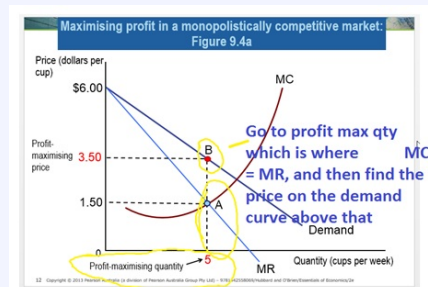
Government By granting a patent or blocks the copyright or By granting a firm a public franchise, more than which makes it the exclusive one firm into legal provider of a good or a market. service.

Control of a key raw material

Network externalities Product usefulness increases with number users

Natural monopoly Economies of scale are so large one firm has a natural monopoly

Maximise profit in monopolistic competition



Price and output decision

Max profit is where marginal revenue = marginal cost $MR = MC$

Like every other firm

Demand curve = product demand curve

Price Maker

With a natural monopoly, the average total cost curve is still falling when it crosses the demand curve

Monopoly affect on economic efficiency?

Will produce less and charge a higher price than a perfectly competitive industry

Causes a reduction in consumer surplus

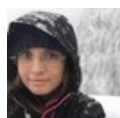
Causes an increase in producer surplus

Causes a deadweight loss (allocative inefficiency)

Increases market power (ability to charge higher than marginal cost)

Firms with market power are more likely to earn economic profits, so because R & D requires \$\$\$ they are also more likely to introduce new products

Equilibrium in a perfectly competitive market results in the greatest amount of economic surplus, or total benefit to society



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