## Monopoly definition

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

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|---|---|
| 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.

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|---|---|
| How monopoloi-sticaly comp firm maximises profit in the **short run** | 1. Calculate Profit = (P - ATC) x 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

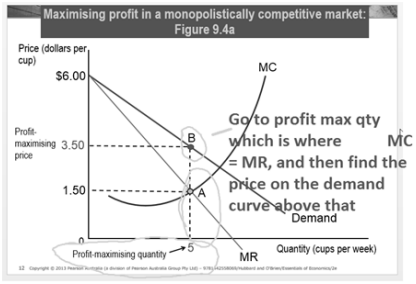
Four reasons for high barriers to entry

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

Dauses a deadweight loss (allocative ineffi-ciency)

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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