Cheatography

Monopolies Cheat Sheet

by Natalie Moore (NatalieMoore) via cheatography.com/19119/cs/2239/

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 monopoloisticaly 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)

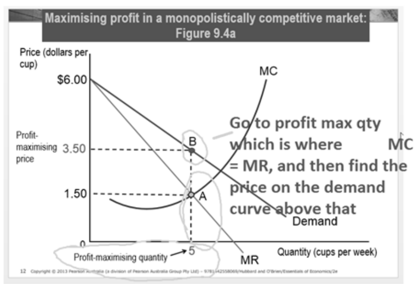
Monopolistic competition (cont)

- 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 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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