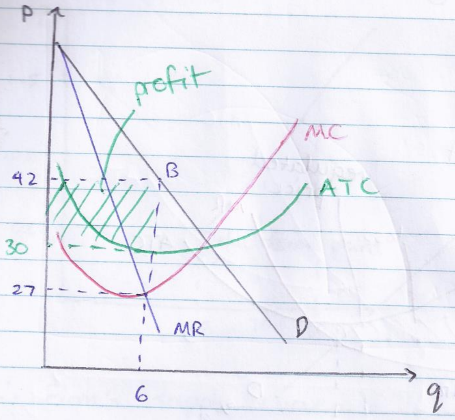
Monopoly Markets

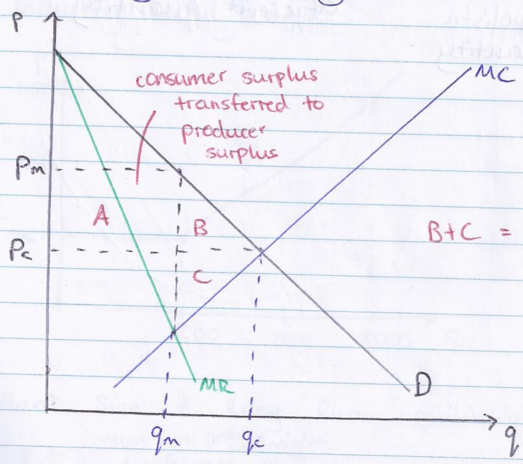
- Monopoly
  - A market structure in which there is only one seller of a good or service that does not have a close substitute
- Barrier to entry
  - Anything that prevents new firms from entering an industry
    - Government blocks the entry of more than one firm into a market
      - Patents
        - The exclusive right to produce and sell a product for a period of time from the date the product was invented
          - In Australia = 20 years
      - Copyright
      - Public franchise
        - A designation by the government that a firm is the only legal provider of a good or service
    - One firm has control of a key raw material necessary to produce a good
    - There are important network externalities in supplying the good or service
      - Exist when the usefulness of a product increases with the number of consumers who use it
    - Economies of scale are so large that one firm has a natural monopoly
      - A situation in which economies of scale are so large that one firm can supply the entire market at a lower average cost than can two or more firms
- Monopoly's price and output
  - Demand curve for a monopoly is the same as market demand
    - Average revenue is equal to the price
  - Marginal revenue
    - Monopoly firms are price makers
    - Marginal revenue curve downward-sloping
    - MR curve has the same intercept as the demand curve and twice the slope
  - Profit maximisation
    - Profit maximising monopolist will never produce at an output in the inelastic range of its demand curve
    - See diagram
- Comparing monopoly and perfect competition
  - A monopoly will produce less and charge a higher price than would a perfectly competitive industry producing the same good
    - Allocative inefficiency of monopoly markets
  - Monopoly increases producer surplus, reduces consumer surplus and reduces economic efficiency
    - See diagram
- How big are the efficiency losses due to a monopoly
  - Relatively few monopolies, so relatively small DWL
  - However, perfect competition rarely exists, so always some efficiency loss in a market
- Government policies and monopolies

- Collusion
  - An agreement between firms to charge the same price, or otherwise not to compete
- Trade practises law and enforcement
  - Competitive behaviour of firms is monitored by the ACCC
  - Enforces the *Competition and Consumer Act 2010*
    - Anti-competitive agreements
    - Exclusive dealing
    - Misuse of market power
    - Boycotts
    - Resale price maintenance
    - Unconscionable and misleading conduct
    - Product safety and reliability
- Mergers
  - Horizontal mergers
    - Merger between firms in the same industry
  - Vertical merger
    - A merger between firms at different stages of production of a good
  - Merger between two companies may make producing the good more efficient and lower costs
- Regulating natural monopolies
  - State regulatory commissions often set the prices for natural monopolies

Profit Maximisation in a Monopoly



Comparing Monopoly & Perfect competition



B+C = deadweight loss

where qc & pc are price & quantity of competitive market

& qm & pm are monopoly