Introduction to Economics I
Lecture 11

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A monopoly: A single firm in an industry

A market structure characterized by a single seller, selling a unique product in the market.

In a monopoly market, the seller faces no competition, as he is the sole seller of goods with no close substitute.

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A Monopoly

In a monopoly market, factors like government license, ownership of resources, copyright and patent and high starting cost make an entity a single seller of goods.

All these factors restrict the entry of other sellers in the market.

Monopolies also possess some information that is not known to other sellers.

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Characteristics associated with a monopoly market make the single seller the market controller as well as the price maker.

He enjoys the power of setting the price for his goods.

Therefore P>MC.

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A Monopoly

High or no barriers to entry: Competitors are not able to enter the market, and the monopoly can easily prevent competition from developing their foothold in an industry by acquiring the competition.

Single seller: There is only one seller in the market, meaning the company becomes the same as the industry it serves.

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Price maker: The company that operates the monopoly decides the price of the product that it will sell without any competition keeping their prices in check.

As a result, monopolies can raise prices at will.

Therefore P>MC.

Price>Marginal Cost

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A Monopoly

Economies of scale: A monopoly often can produce at a lower cost than smaller companies. Monopolies can buy huge quantities of inventory, for example, usually a volume discount. As a result, a monopoly can lower its prices so much that smaller competitors can't survive. Essentially, monopolies can engage in price wars due to their scale of their manufacturing and distribution networks such as warehousing and shipping, that can be done at lower costs than any of the competitors in the industry.

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A Monopoly

Profit maximizing rule: MR=MC

We also know that P>MC.

Hence we conclude that P>MR=MC.

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Natural Monopolies

A natural monopoly can develop when a company becomes a monopoly due to high fixed or start-up costs in an industry. Also, natural monopolies can arise in industries that require unique raw materials, technology, or it's a specialized industry where only one company can meet the needs.

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A monopoly is characterized by the absence of competition, which can lead to high costs for consumers, inferior products and services, and corrupt behavior.

A company that dominates a business sector or industry can use that dominance to its advantage, and at the expense of others. It can create artificial scarcities, fix prices, and circumvent natural laws of supply and demand.

It can impede new entrants into the field, discriminate and inhibit experimentation or new product development, while the public—robbed of the recourse of using a competitor—is at its mercy. A monopolized market often becomes an unfair, unequal, and inefficient.