

[CH. 15] MONOPOLY

- SOLE PRODUCER OF A GOOD
- NO CLOSE SUBSTITUTES
- "PRICE-SETTER" → PROFIT

EXAMPLES: S C E + G

WATER COMPANY

MICROSOFT WINDOWS

- USUALLY BARRIERS TO ENTRY
 - PATENT PROTECTION
 - GOV'T MONOPOLY → GOV'T (CREATED)
 - ONE FIRM OWNS THE NATURAL RESOURCE (INPUT)
 - HIGH FIXED (ENTRY) COSTS OR LOW DEMAND
 - NATURAL MONOPOLY: 2 FIRMS CAN'T MAKE POSITIVE PROFITS BUT 1 FIRM CAN.

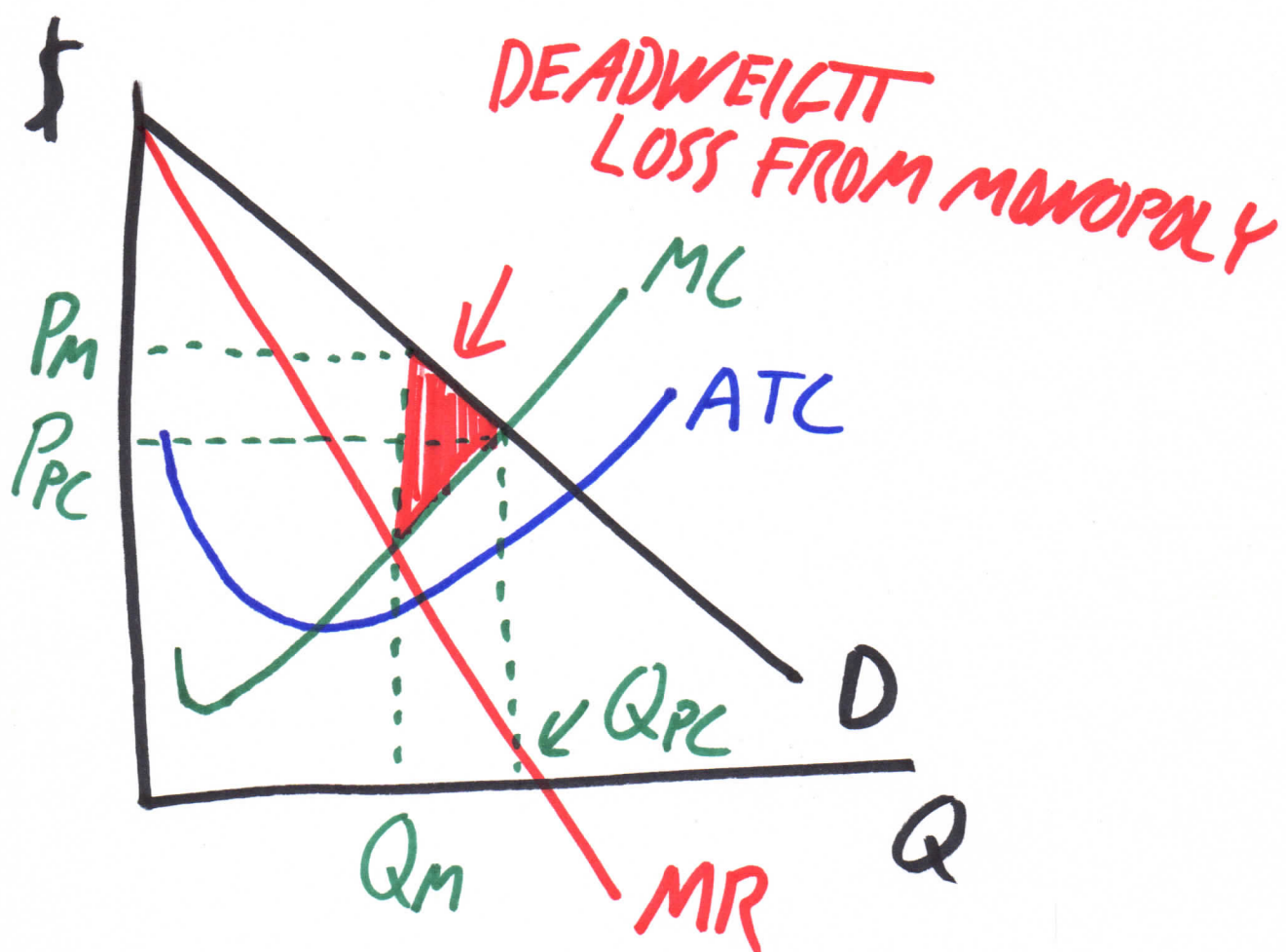
BOONE HALL PLANTATION

① $TR = TC$

② $MR = MC$

$P \times Q =$

Q	P	TR	TC	MR	MC
0	\$25	0	1000	—	—
100	20	2000	1600	2000	600
200	18	3600	2400	1600	800
300	16 = P^*	4800	3600	1200	1200
400	14	5600	5200	800	1600
500	12	6000	7000	400	1800



MONOPOLY $\Rightarrow MC = MR \neq P$

PERFECT COMPETITION $\Rightarrow P = MR = MC$
 $P = MC$

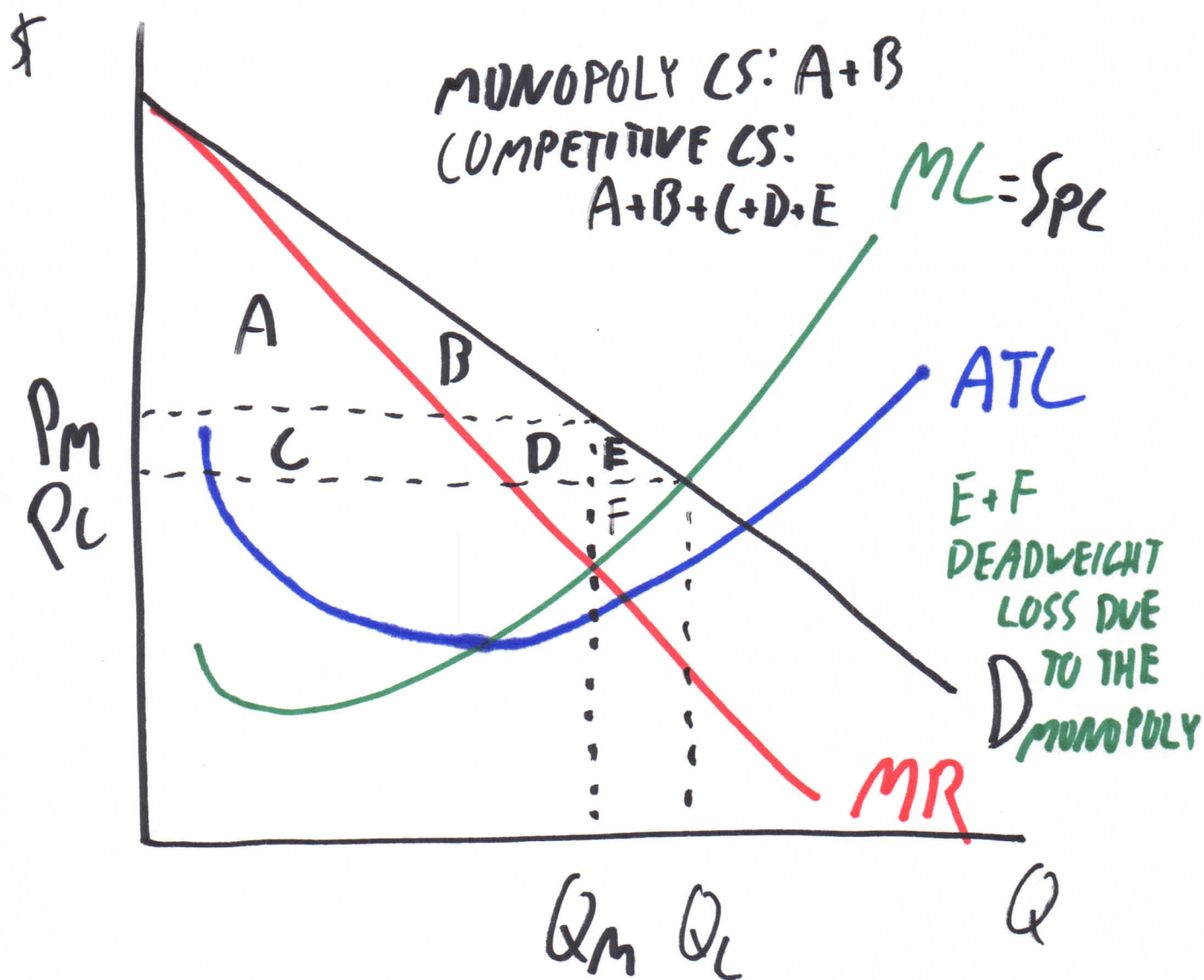
- ① MORE COMPETITION $\rightarrow$ LOWER PRICES
- ② DEADWEIGHT LOSS FROM MONOPOLIES

[H. 15]

MONOPOLY

- IN MONOPOLY $\rightarrow$ LESS Q
HIGHER P

RELATIVE TO PERFECT COMPETITION



MONOPOLY PROS + CONS

CONS: LESS CS THAN PERFECT COMP.

DEADWEIGHT LOSS FROM MONOPOLY

PROs: NATURAL MONOPOLY ACTUALLY
CREATES MARKET

MONOPOLY'S CAN CREATE
INVESTMENT

- PHARMACEUTICAL

POLICY OPTIONS:

- REGULATION

- ANTI-TRUST LEGISLATION

- GOV'T ENTERPRISE

- DO NOTHING

PRICE DISCRIMINATION

- SELL SAME GOOD FOR DIFFERENT PRICES

1st DEGREE

- EVERYONE PAYS A DIFFERENT PRICE
 - COLLEGE TUITION
 - AIRLINE TICKETS

2nd DEGREE

- QUANTITY DISCOUNT
 - CEREAL
 - RAMEN

3rd DEGREE

- DIFFERENT PRICE FOR DIFFERENT GROUPS
 - MOVIES
 - INTERNATIONAL
 - COUPON CLIPPERS (EDUCATED BUYERS)