Mona
Assistant Professor
Department of Economics
Maharaja College, Ara
Veer Kunwar Singh University
B.A. Part-1
Paper-1
Topic : Equilibrium of the Monopolist in the short-run
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Equilibrium of the Monopolist

Short - run equilibrium

The monopolist maximises his short run profits if the following two conditions are fulfilled:

- ***MC =MR***
- ***The slope of MC > The slope of MR at the point of the intersection***

***Graph** :-*

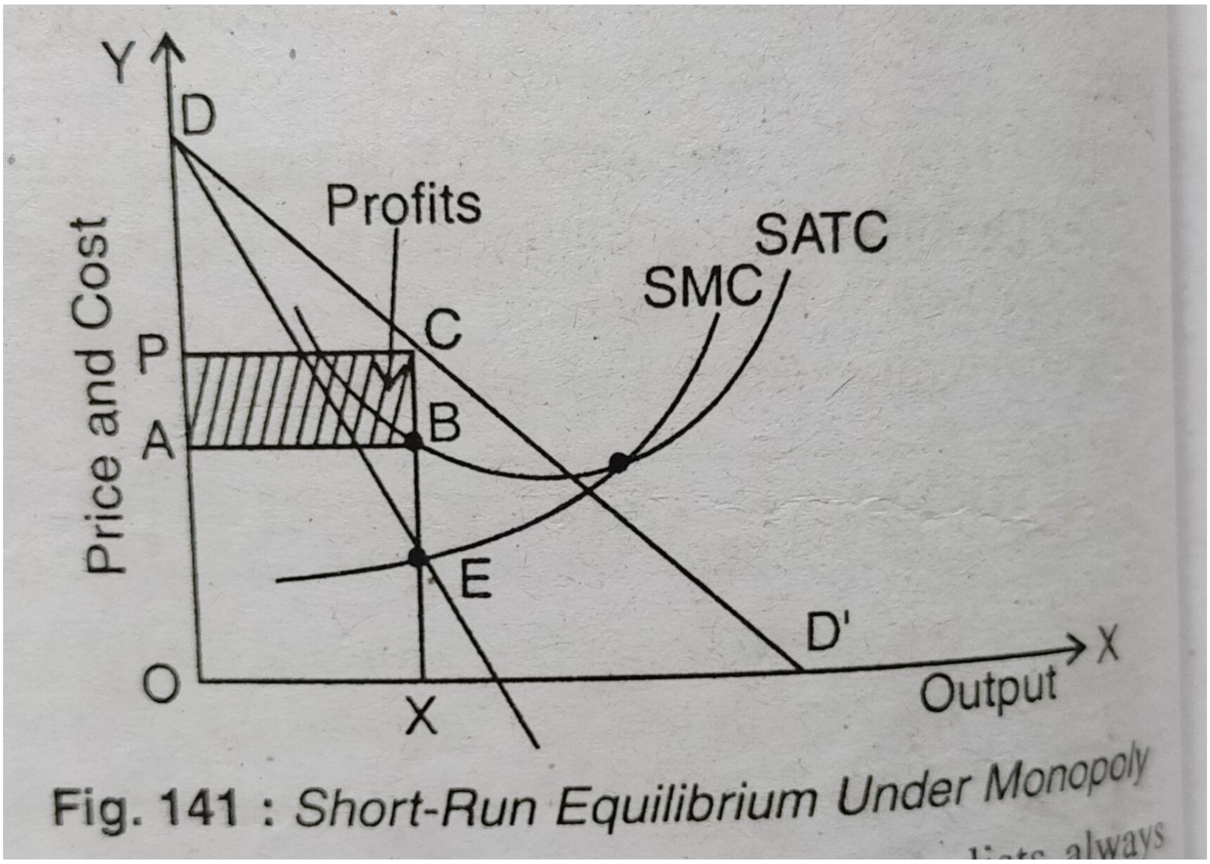

Fig. 141 : *Short-Run Equilibrium Under Monopoly*

Explanation of the graph :

The equilibrium of the monopolist is defined by the point **E,** at which the **MC** intersects the **MR** curve from below. Thus both conditions for equilibrium are fulfilled. Price is **P** and the quantity is **X**. The Monopolist realises excess profits equal to the shaded area **APCB.** Note that the price is higher than MR i.e; **P>MR**

It is Generally thought the Monopolist always earns profit therefore in layman's mind profits are generally associated with Monopoly. But this is a wrong notion.

In the short- run , Monopolist can make losses also. If demand is inadequate , the complete absence of competition is of little benefit to the seller. In the short- run , monopolist will continue working so long as price is above the average variable cost. If the price falls below average variable cost , the monopolist would shut-down even in the short- run.

In the perfect competition the Firm is a **price- taker,** so that its only decision is output determination. Whereas the Monopolist is faced by two decisions :

- **Setting his price**
- **And, output**

However, given the downward sloping demand curve, the two decisions are interdependent. The Monopolist will either set his price and sell the amount that the market will take at it, or he will produce the output defined by the intersection of MC and MR , which will be sold at the corresponding price, P.

The monopolist can not decide independently both the quantity and the price at which he wants to sell it.

The crucial condition for the maximisation of the Monopolist's profit is the equality of his MC and MR, provided that the MC cuts the MR from below.