Mona

Assistant Professor

Department Of Economics

Maharaja College, Ara

Veer Kunwar Singh University

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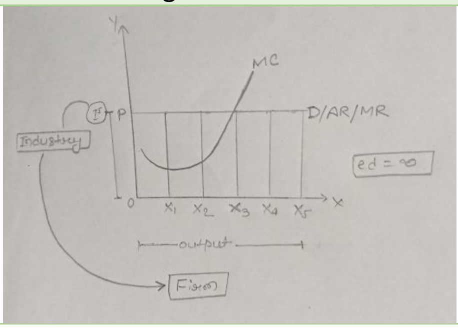
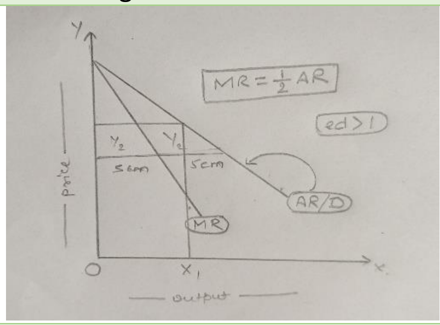
Email address: monapryal2223@gmail.com

- ## Difference between Perfect Competition and Monopoly:

PERFECT COMPETITON	MONOPOLY
Large number of buyers and sellers.	One seller but large number of buyers.
Product – Homogeneous (close substitute)	Product – Heterogeneous (no close substitute)
Cross elasticity = high/∞	Cross elasticity = low/negligible
Price determined by market or industry.	Price or Output determined by market or firm or monopolist (firms and industries are same).
Firm is price taker.	Firm or industry is price maker.
Free entry and exit.	No entry but free exit.
Price elasticity of demand curve = ∞	Price elasticity of demand curve = ed>1
Demand curve is horizontal to x-axis.	Demand curve is downward sloping from left to right.
D = AR = MR	MR = AR/2
Perfect knowledge.	Imperfect knowledge.
No government regulation.	Government regulation.
	

Two points of equilibrium:

1. MC = MR

2. Slope of MC > Slope of MR

*(MC cuts MR from below)

Perfect competition market structure:

(i) Normal Profit

- P = AC or, AR = AC
- Zero economic profit
- Neither loss nor profit

(ii) Supernormal Profit

- P > AC or, AR > AC
- Economic profit

(iii) Loss

- P < AC or, AR < AC
- Economic loss

What is Monopoly?

The word 'monopoly' refers to a market situation in which there is one seller of the commodity and large number of buyers. 'Mono' refers to a single and 'Poly' to control.

There are no close substitutes for the commodity it produces and there is barrier to entry the single producer may be in the form of individual owner or a single partnership or a joint stock company.

In other words, under monopoly there is no difference between firm and industry.

Monopolist has full control over the supply of commodity, it means he possesses the market power to set the price. Thus, as a single seller, monopolist may be a king without a crown. If there is to be monopoly, the cross elasticity of demand between the product of the monopolist and the product of any other seller must be very small.

Definitions

These are following definitions given below by different economists:

According to Koutsoyiannis,

"Monopoly is a market situation in which there is a single seller. There are no close substitutes of the commodity it produces, there are barriers to entry."

A pure monopoly means a single seller with no competition. Given that pure monopolies are rare, regulators and other agencies often consider the extent of monopoly power in a market to determine whether intervention should take place.

According to A. J. Braff,

"Under pure monopoly there is a single seller in the market. The monopolist demand is market demand. The monopolist is a price-maker. Pure monopoly suggests no substitute situation."

Equilibrium in Monopoly

The condition for equilibrium for monopoly are the same as those under perfect competition:

1st condition: The marginal cost is equal to marginal revenue (MC = MR).

2nd condition: The slope of MC is greater than the slope of MR (slope of MC > slope of MR).

States of Equilibrium:

(i) Equilibrium in short-run
(ii) Equilibrium in long-run

A firm short-run equilibrium in monopoly

Like in perfect competition, there are three possibilities for a firm equilibrium in the short-run under monopoly:

1st – The firm earns normal profit if the average cost is equal to the average revenue (AC = AR) or, (P = AC).

2nd – The firm earns super normal profit if the average cost is less than average revenue (AC < AR) or, (AC < P).

3rd – It incurs losses if the average cost is greater than the average revenue (AC > AR) or, (AC > P).

Features

We may state the features of monopoly as:

- **One Seller and Large Number of Buyers:**

The monopolist's firm is only firm; it is an industry. But the number of buyers is assumed to be large.

- **No Close Substitutes:**

There shall not be any close substitutes for the product sold by the monopolist. The cross elasticity of demand between the product of the monopolist and others must be negligible or zero.

- **Difficulty of Entry of New Firms:**

There are either natural or artificial restrictions on the entry of firms into the industry, even when the firm is making abnormal profits.

- **Monopoly is also an Industry:**

Under monopoly there is only one firm which constitutes the industry. Difference between firm and industry comes to an end.

- **Price Maker:**

Under monopoly, monopolist has full control over the supply of the commodity. But due to large number of buyers, demand of any one buyer constitutes an infinitely small part of the total demand. Therefore, buyers have to pay the price fixed by the monopolist.