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Topic : Monopoly (Short-Run Equilibrium)

Monopoly

Definition:

A monopoly is a market structure where a single seller or producer dominates the entire market for a particular good or service. This means there's essentially no competition, as other businesses cannot offer similar products or services.

Key Assumptions of Monopoly

- ☐ **Single Seller: The most fundamental assumption is that there's only one firm producing and selling the product. This firm is the industry.**
- ☐ **Unique Product: The product offered by the monopolist has no close substitutes. Consumers have no other real options to turn to.**
- ☐ **Barriers to Entry: Significant obstacles prevent other firms from entering the market and competing with the monopolist. These barriers can be:**
    - **Legal Barriers: Patents, copyrights, licenses, or government-granted exclusive rights.**
    - **Economic Barriers: High start-up costs, economies of scale that favor the existing firm, or control over essential resources.**
    - **Natural Barriers: Unique natural resources or technological advantages that are difficult to replicate.**

- ☐ **Price Maker: Unlike firms in competitive markets, a monopolist has significant control over the price of its product. It can choose to set a higher price because consumers have no alternatives.**
- ☐ **Profit Maximization: The primary goal of a monopoly is to maximize its profits. It does this by carefully analyzing demand and costs to determine the optimal price and output level.**
- ☐ **Complete Information: It's assumed that the monopolist has complete knowledge of market demand and its own cost structure.**

Important Notes

- ☐ **Rare in Pure Form: True monopolies are relatively rare in most modern economies. Governments often regulate or break up monopolies to protect competition and consumer welfare.**
- ☐ **Monopoly Power: Even if a firm isn't a pure monopoly, it might have some degree of "monopoly power" if it holds a large market share or offers a somewhat differentiated product.**

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** :-*

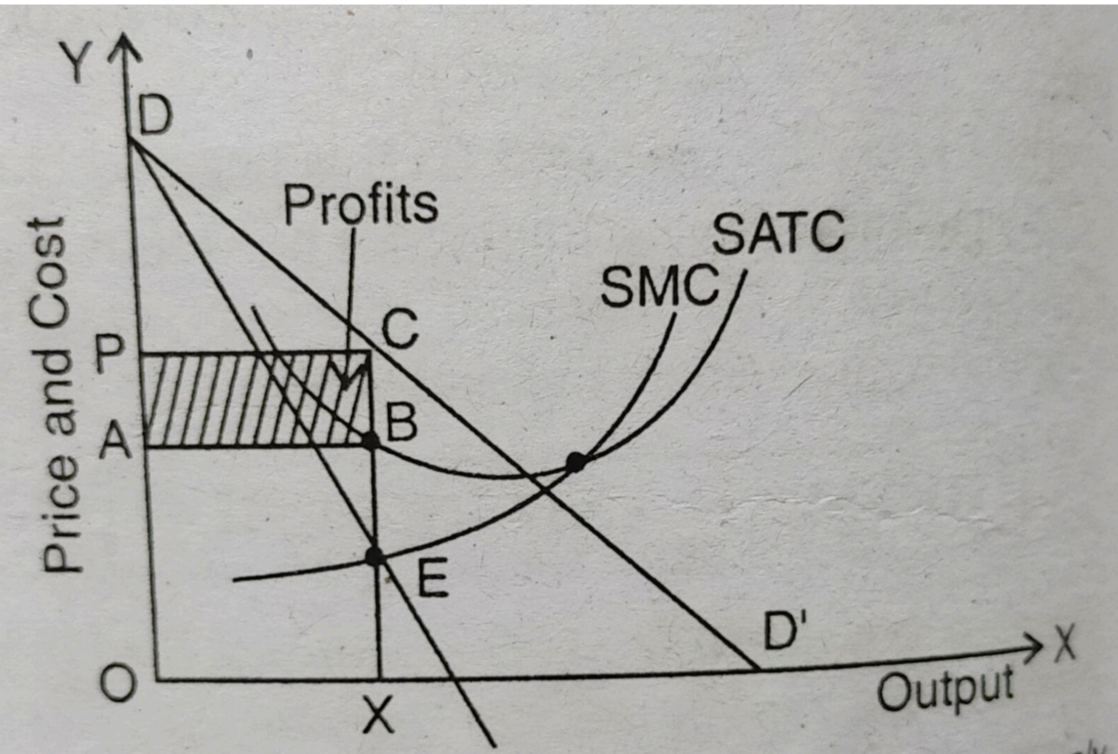

Fig. 141 : *Short-Run Equilibrium Under Monopoly*

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 , Monopolists can make losses also. If demand is inadequate , the complete absence of competition is of little benefit to the seller. In the short- run , monopolists will continue working so long as the 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.