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Topic : Monopoly

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Monopoly

- **Goals of the Firm:**

Single goal of the firm, i.e., "maximisation of profit" which shows rational behaviour of the firm.

- **Assumptions:**

→ Product may or may not be homogeneous

→ Since, there is single seller that's why firm can set the price

→ Under monopoly, Entry is fully blocked. It means, there is complete barrier on the entry of new firm in the market.

→ Cost curves → U-shaped in the SR & LR

→ Output does not produce at the optimum level.

→ In the LR, supernormal profit is earned by the firm.

Monopoly

* **Behavioural Rule of the firm :**

- In monopoly, demand curve of the firm is the demand curve of the industry and hence negatively sloped as "less elastic" (than perfect compet. as well as monopolistic compet.) i.e., $\boxed{e > 1}$

→ firm is "price maker"

- firm can determine either "output" or "price" because once one of these determined other will be simultaneously determine.
- There is scope for research & development.

- firm acts atomistically, i.e., it takes the decisions which will maximise its profit, ignoring the reaction of other firms. In this market decisions are taken by applying "The Marginalistic Rule" i.e., $\boxed{MC = MR}$

- Basically "Static Model"

- SR profit maximisation leads to LR profit maximisation.

Monopoly

- Given cost conditions, level of output will generally be lower and the price is higher as compared to pure competition because monopolist earns "abnormal (supernormal) profit" even in the LR

- Price elasticity of demand must be greater than 1 i.e., $\boxed{e > 1}$ (upper part of Demand curve)
- In monopoly, there is no certainty that the monopolist will produce at minimum LR costs. He may never reach the lowest point of the LAC or he may overshoot it, depending upon market size.

- Supply function is not uniquely determined same quantity may be offered at different prices.

  Note:- MC is not its supply curve

- Supernormal profits are usually earned under both "Short run" and "Long-run."

Monopoly

Comperision of Predictions :

- Shift in market demand :→

In Monopoly, we do not distinguish b/w SR & LR. A shift of the demand curve above the original level will result in an increase in output, which may be sold at the same, a higher or a lower price, depending on the extent of the shift in the demand and the change in its elasticity

- A shift in Costs :→

i) When AFC change :

The monopolist will not change his output in the SR or in the long-Run Only if the increase in fixed costs wipes out of the abnormal / supernormal profit and reduces the normal profit of the monopolist, will he go out of business.

ii). When AVC change :

When the increase in AVC, MC shifted upward ↑ (MC depends on AVC), output is reduced and price increases

AVC ↑ → MC ↑ → Y (output) ↓ → Price ↑