Pinky Rani
Assistant Professor (Guest Faculty)
Department of Economics
Maharaja College
Veer Kunwar Singh University, Ara
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MONOPOLY

Earlier it was observe that there was no monopoly market. It was just exceptional case but now a day we can see many examples in real world of this market. There are two extreme cases of market one is perfect competition where there are large number of sellers selling homogenous product and other extreme end is pure monopoly when there is only single seller for example Indian railway.

MEANING OF MONOPOLY

Monopoly is a market having single seller of a product which has no close substitutes. Literally Monopoly implies 'Mono' means One and 'Poly' means seller. Thus monopoly means 'One Seller' or 'One Producer' exist in a market.

There are three main important points regarding monopoly

i. There must be single seller of a product. The single producer can be in the form of individual owner, a single partnership or a joint stock company.

ii. No substitutes of the product in the market.

iii. There must be strong barriers to entry of new firms into the market.

DEFINITION

According to **Koutsoyiannis** "Monopoly is a market situation in which there is a single seller, there are no close substitutes for commodity it produces there are barriers to entry"

According to **Lerner** "Monopoly as any seller who is confronted with a falling demand curve for his product".

ASSUMPTIONS/ FEATURES OF MONOPOLY

The following are the main features or assumptions of monopoly market:

i. **Single Seller & Large number of Buyers**: This is the main feature of monopoly that there must be single seller of the product and there are strong barriers to entry for new firms. And there is an existence of large number of buyers.

ii. **No Close Substitutes**: There must be no close substitutes of the product in the market otherwise monopoly will break.

iii. **Barriers to Entry**: There must be barrier to entry for the new firms into the market. It can be through licence, limit pricing policy, economies of production etc.

iv. **Price Maker:** A monopolist is the whole seller of the product with no close substitutes. So it is industry itself. It is price maker as well as price taker also.

Price Discrimination: When a monopolist charges different prices for the same product from different buyers it is case of price discrimination. In monopoly seller can practised price discrimination as he is single producer of the product.

REASONS OF EMERGEMCE OF MONOPOLY POWER

There are many causes due to which monopoly generates

1. Patent rights for a product or for a process of production of the product.
2. Exclusive ownership of raw material and exclusive knowledge of production technique.

- Some time government provide gnat for franchise to a firm.

1. Monopoly may be generate due to scale of production which give economies of scale.
2. Monopoly can be generated through limit pricing policy.

REVENUE AND COST CURVES IN CASE OF MONOPOLY

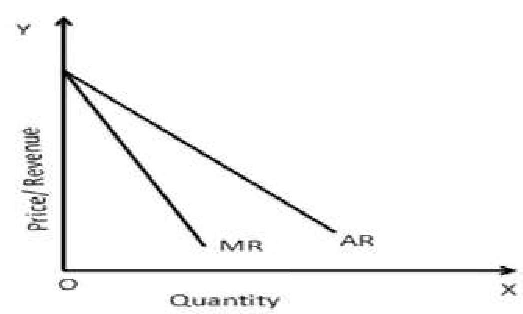
To study the price and output determination under monopoly it is important to know the nature of demand curve under it.

Demand Curve: under perfect competition demand curve for a firm is horizontal while for industry it is downward sloping. In monopoly a firm itself is industry so its demand curve is downward sloping implying if a monopolist want to increase the sale of its product it must lower the price or vice versa. So demand and average revenue curve are downward. When average revenue curve is downward marginal revenue curve is also downward and under it. It is shown in the table & Figure1.

Table 1: Total Revenue, Average Revenue and Marginal Revenue.

Number of Unit Sold	Price Per Unit (in Rupees)	Total Revenue (in Rupees)	Average Revenue (in Rupees)	Marginal Revenue (in Rupees)
1	10	10	10	10
2	9	18	9	8
3	8	24	8	6
4	7	28	7	4
5	6	30	6	2

Figure 1: Revenue Curve



AR is average revenue curve and MR is marginal revenue curve. Implying if a monopolist want to sell more quantity it has to lower down its price of the product and he can sale less at higher prices. AR and MR are less elastic in monopoly because there are no close substitutes of the product.

Cost Curves: Cost curves under monopoly also follow the shape of traditional theory of cost. Average Cost, Average variable cost, marginal costs are U shaped and average fixed cost is rectangular hyperbola.