Lots of Interesting Things About Monopolies!

A. Characteristics of a Pure Monopoly

1. There is a single seller so the firm and the industry are identical.
2. There is no "supply curve" with a monopoly
3. There are no close substitutes for the firm's product.
4. The firm is a "price maker," that is, the firm has considerable control over the price because it can control the quantity supplied. However, the law of demand still applies.
5. Entry into the industry by other firms is blocked.
6. A monopolist may or may not engage in nonprice competition. Depending on the nature of its product, a monopolist may advertise to increase demand.

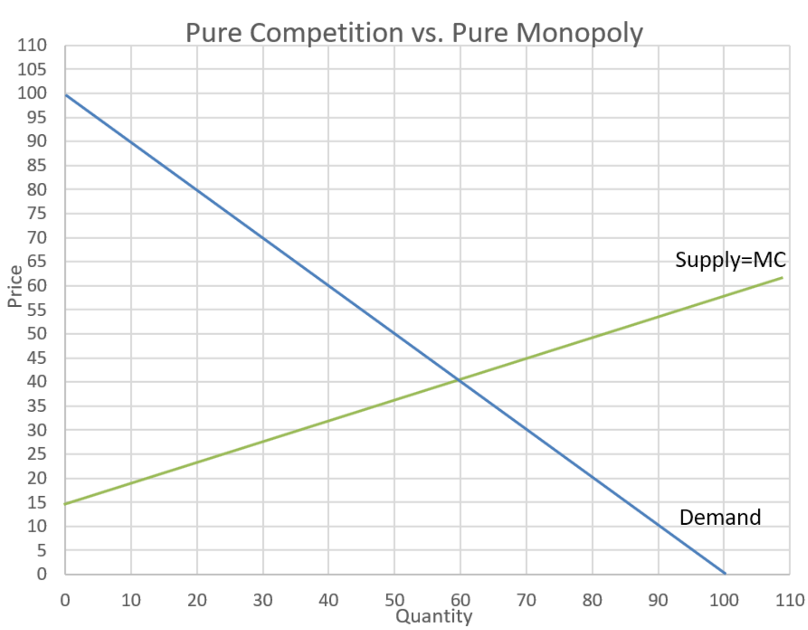
B. Examples of Barriers to Entry

1. There is a legal barrier to entry (US Mail: Title 18, Sec. 1725, $10,000 fine)
2. Patents and Copyrights
3. One person owns a necessary resource (Alcoa & Bauxite)
4. Firm-created barriers to entry, buy competitors
5. High sunk costs to get into business
6. Technological superiority
7. Economies of scale (***Natural*** Monopoly): High FC, Low MC: Public Utilities
8. Cartel

C. The most important thing! Marginal Revenue!

1. Marginal revenue is the additional revenue from selling one more unit.
2. For a straight-line demand, marginal revenue is a line with twice the slope.
3. Marginal revenue is LESS THAN price!
4. Perfectly competitive industry will produce while P≥MC
   Monopolies will produce while MR≥MC
5. So, Monopolies will produce less, causing a deadweight loss!

Price	Quantity	Total Revenue	Marginal Revenue
$100	0	$0	
$99	1	$99	
$98	2	$196	
$97	3	$291	
$96	4	$384	



D. Why are Monopolies Bad?

   a. They make persistent profits by cutting the quantity and raising the price
   b. So, Consumer’s surplus drops by more than their profit increases! (Deadweight Loss)
   c. Monopolists waste resources to create more barriers to entry
   d. Monopolies are less responsive to customers, and are generally less efficient.

E. How can monopolies be good?

   a. Without patents and copyrights, what might happen?
   b. Suppose we force all drug manufacturers to drastically cut prices.
   c. With a natural monopoly, it is most efficient to have one firm produce. But, don’t et them charge whatever they want!

F. Price Discrimination: Make separate markets, then charge different prices based on demand.