YESHWANTRAO CHAPHEKAR COLLEGE, PALGHAR

PRESENTATION

ON

CHAPTER- 14 .MONOPOLY

PRESENTED BY:

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Introduction of Monopoly

- Monopoly is another form of market where there is only one seller.

- A monopolist controls the entire supply of commodity in a pure monopoly market.

- Example of such market is Railway, Defence, etc

- A monopoly can control both supply and price, however a rational monopolist, who wants to maximise profit, would not control both at the same time.

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- In this market monopolist is a price maker and the price taker.

Features of Monopoly

1.<u>Single seller –</u>

- There are no competitors.
- He is the sole seller.
- He is not threatened by any competitor.

Continued....

2. <u>No close substitutes –</u>

- The commodity sold by the monopolist has no close substitutes. Eg- Railway, ?????

3. **<u>No entry</u>** –

- Monopoly market is completely restricted.

- If entry is allowed then a market will be no more a monopoly market.

Continued….

4. **No Distinction between Firm and Industry –**

- A monopoly being the sole seller constitutes the firm as well as the Industry.

5. Downward sloping and less elastic demand curve-

- A monopolist can increase his sales by lowering price.
- Demand is also elastic due to absence of close substitutes which makes the cross elasticity of demand almost zero.

Sources of Monopoly Power/ Rise to Monopoly

Sources of Monopoly Power :

1. Geographic Monopoly :–

- Some monopolies are due to nature.
- Supply of natural resources like gold or crude oil being limited is controlled by Government.
- Government of these countries acquire monopoly over the supply of natural resources as these resources are available only in those countries and hardly available elsewhere.

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2. <u>Legal Protection</u> –

- Legal protection granted by the government in the form of patent rights, trade marks, copy rights, license etc gives monopoly power to the person and firms who have introduced such commodity.

PATENT/ COPYRIGHTS/ TRADEMARK :

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Continued.....

3. Cartel Formation –

- If a product is produced by few producers and the market is oligopoly one it is possible for these few producers to come together and form a cartel to establish a monopoly.
- Organisation of Petroleum and Exporting Countries (OPEC) is a good example of cartel formation.
- OPEC could increase the price and earn a large amount of revenue.

CARTEL FORMATIO (OPEC)

Continued.....

4. **Barriers to New Competition (Price Policy)** -

- A firm may follow a limiting-price policy, that is, a price which does not attract the new firms.
- This may be combined with heavy advertising or a continuous product differentiation.
- Such practices prevent new entries and give a monopoly power to the existing firm.

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5. Technology –

- Technology developed by the business firms or nations give them a monopoly right over such a good or service.
- As long as the technology is not diffused and thus not made available to others the original firm retains the monopoly.
- A monopoly that occurs when a single firm controls manufacturing methods necessary to produce a certain product, or has exclusive rights over the technology used to manufacture it.

TECHNOLOGY

Continued…..

6. Natural Monopoly : –

- Natural monopoly occurs when a company takes advantage of an industry's high barriers to entry due to high infrastructure cost or start up cost.

- The utility industries like power production and supply, water supply, transport services (Indian railways) are some of the examples.

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- Natural resources like crude oil, gold or other mineral resources require huge investment for their production and supply.

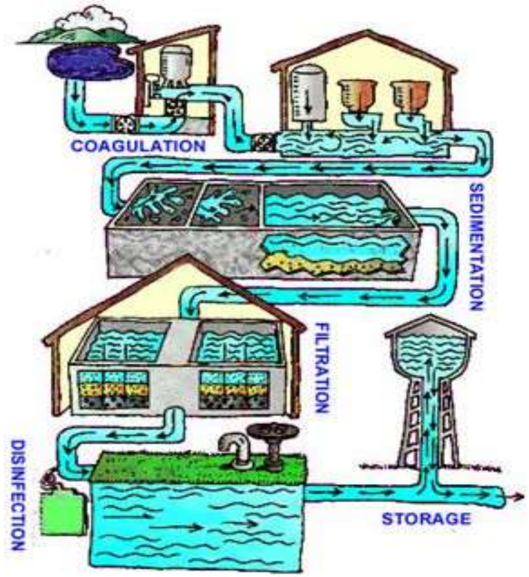
- Thus providing scope for the government or individual firm (with the permission of Government) to acquire natural monopoly.

NATURAL MONOPOLY

"Natural" Monopoly

- **Definition: Situation where it makes sense for only one business to provide a good or service, usually because the cost of starting up the business is very high. Prices are regulated by the government.**

- **Examples: UTILITIES: electricity companies, water, sewers/waste management**



Xcel Energy

COMPARISON BETWEEN PERFECT COMPETITION AND MONOPOLY

Characteristics	Perfect Competition	Monopoly
No. of sellers	Large	Single
Commodity	Homogeneous	Homogeneous/Unique
Market Position	Price taker	Price maker
Nature of Demand	Perfectly elastic (HL)	Less elastic (DS)
AR and MR	AR=MR	AR>MR
Production	Optimum	Usually less than optimum. Optimum production is possible if demand increases.
Long-run profit	Normal	Excess

EQUILIBRIUM OF A MONOPOLY FIRM

A) Short-Run Equilibrium

1. Excess Profit (discuss on board)

2. Loss (discuss on board)

B) Long-Run Equilibrium (discuss on board)