

Fundamentals of Economics- Monopoly

Agenda

- Meaning and features of Monopoly market structure
- Assumption of Monopoly
- Equilibrium of a Monopoly firm
- Advantages and disadvantages of monopoly firm

<https://www.youtube.com/watch?v=PJzNfCUI6M4>

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Main Features...

- Only one sellers
- E.g. Indian railway
- Firm and industry is coincide
- Significant Entry barrier



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Why entry barriers?

Legal or Technical or Economic

- Patent
- Licenses
- Exclusive Knowledge of technology
- Ownership and control of strategic raw-material

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Natural monopoly

- Example

Power plant



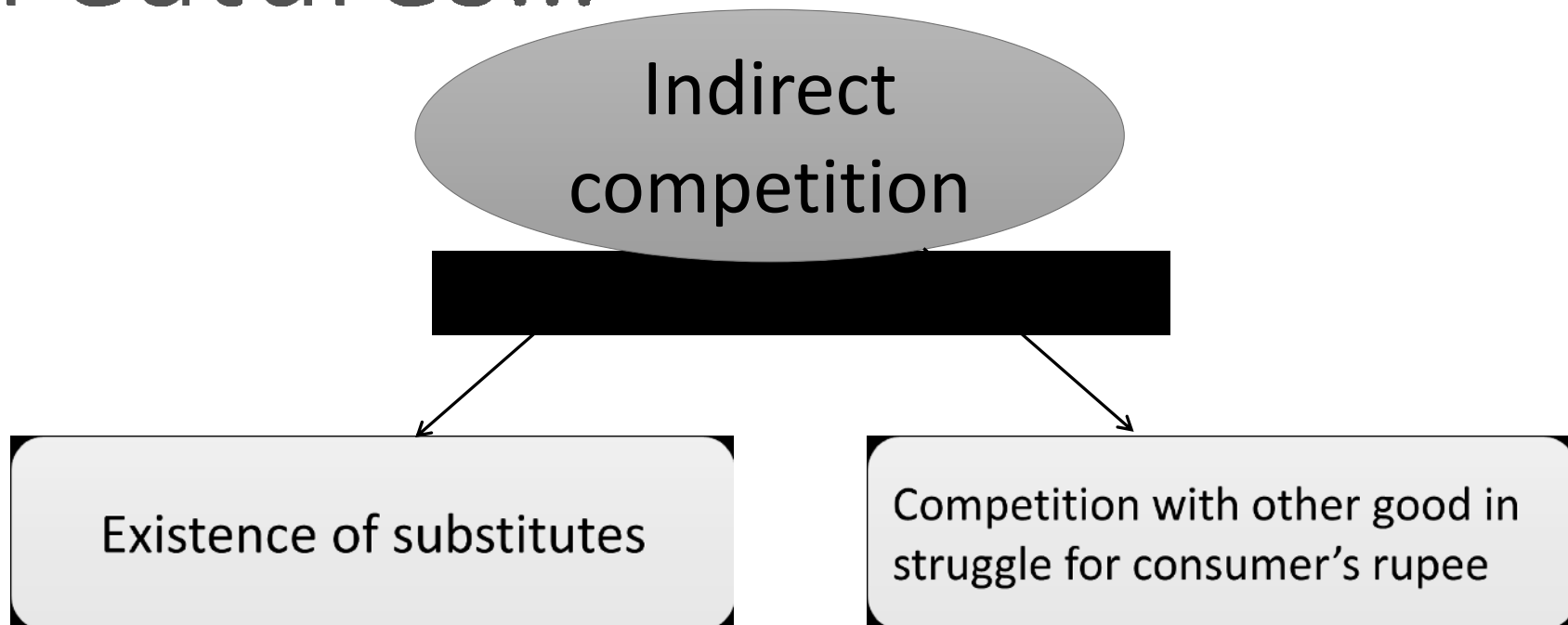
<https://www.youtube.com/watch?v=PjzNfCUi6M4>

Feature...

- Monopolist is a price- maker
- No direct competition

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Features...



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Existence of substitutes



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Monopoly is not a permanent phenomenon

- E.g. Fevicol and Bluecoat



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Assumptions of a Monopoly firm

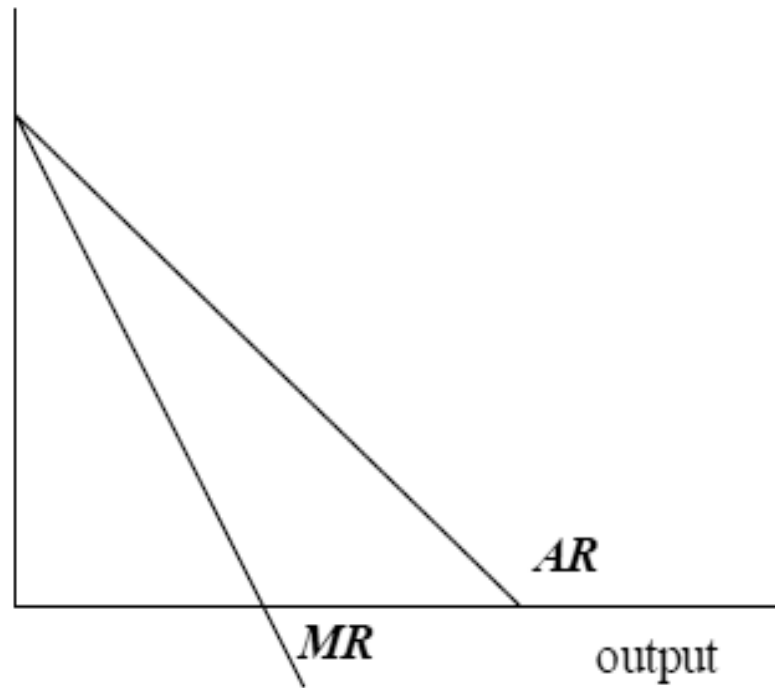
- Does not charge discriminating prices
- Aims to maximize profit
- Individual buyer is price-taker
- No restriction on price

EQUILIBRIUM OF A MONOPOLY FIRM

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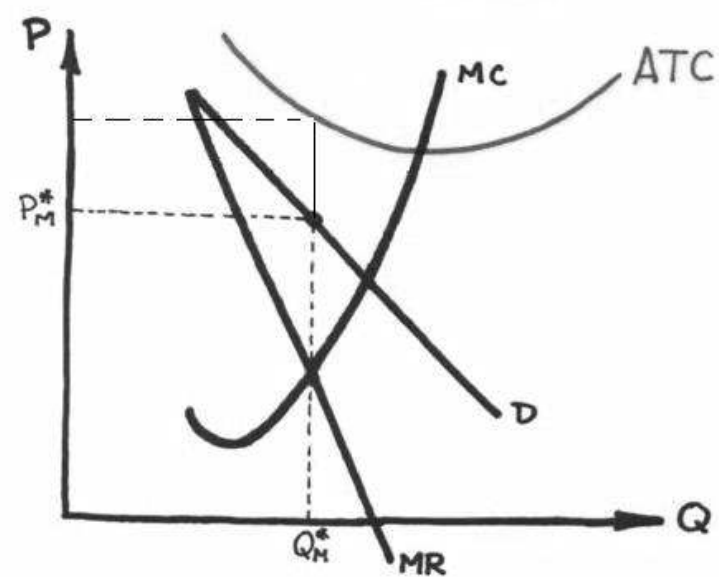
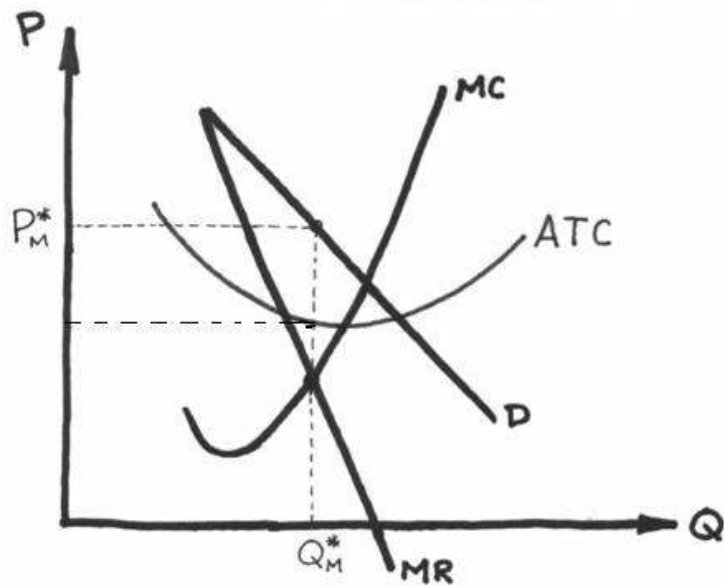
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Demand curve



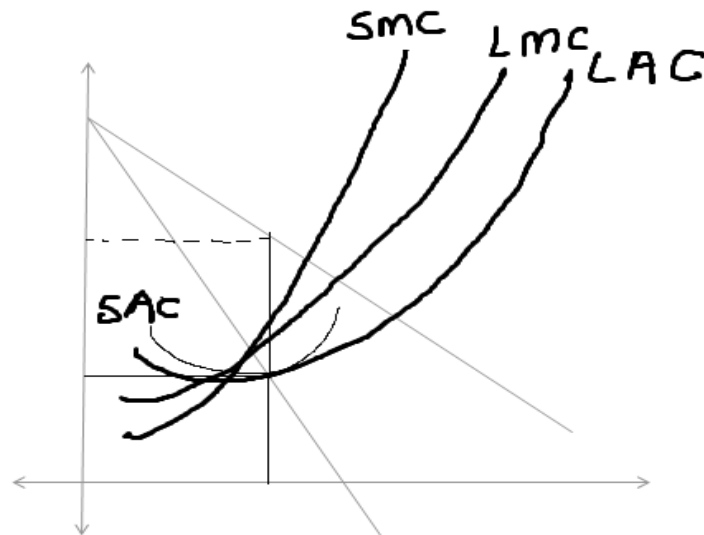
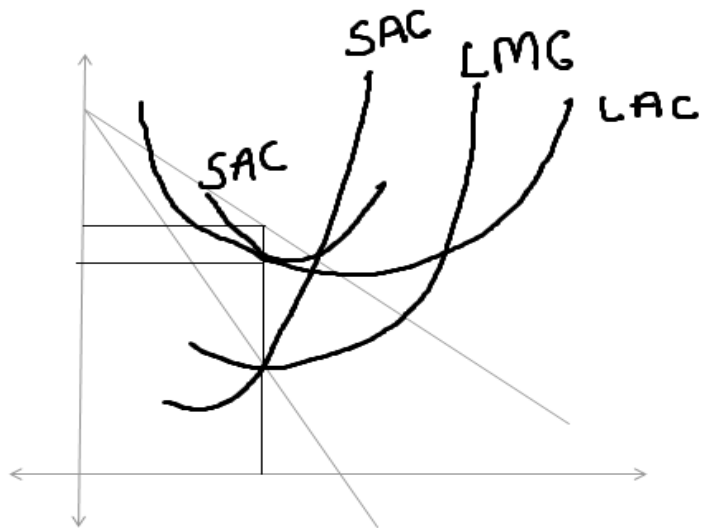
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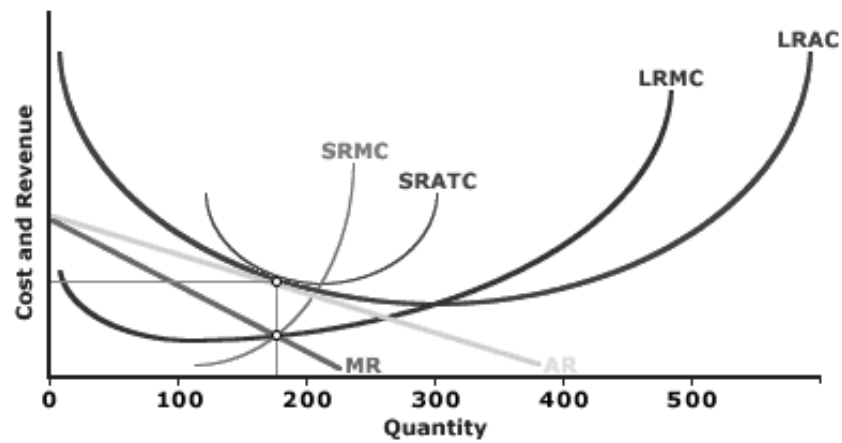
Short run curve



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Long run curve





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Pros & cons of Monopoly

• *Advantages*

- Avoids duplication
- Enjoys economies of scale
- Able to spent on R & D cost

• *Disadvantages*

- No consumer sovereignty
- Consumer have to pay high price
- Lack of competition may lead to low quality product

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Next lecture...

- Monopolistic competition

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Examrace