Shoolini University

PRINCIPLES OF ECONOMICS

Lecture 30: MONOPOLY

OCTOBER, 2015

TOPICS OF DISCUSSION

1. Monopoly:

- Meaning and examples
- Assumptions/Features
- Demand, MR and MC under Monopoly

MONOPOLY

- Monopoly is a market structure in which there is a single supplier/seller of a product.

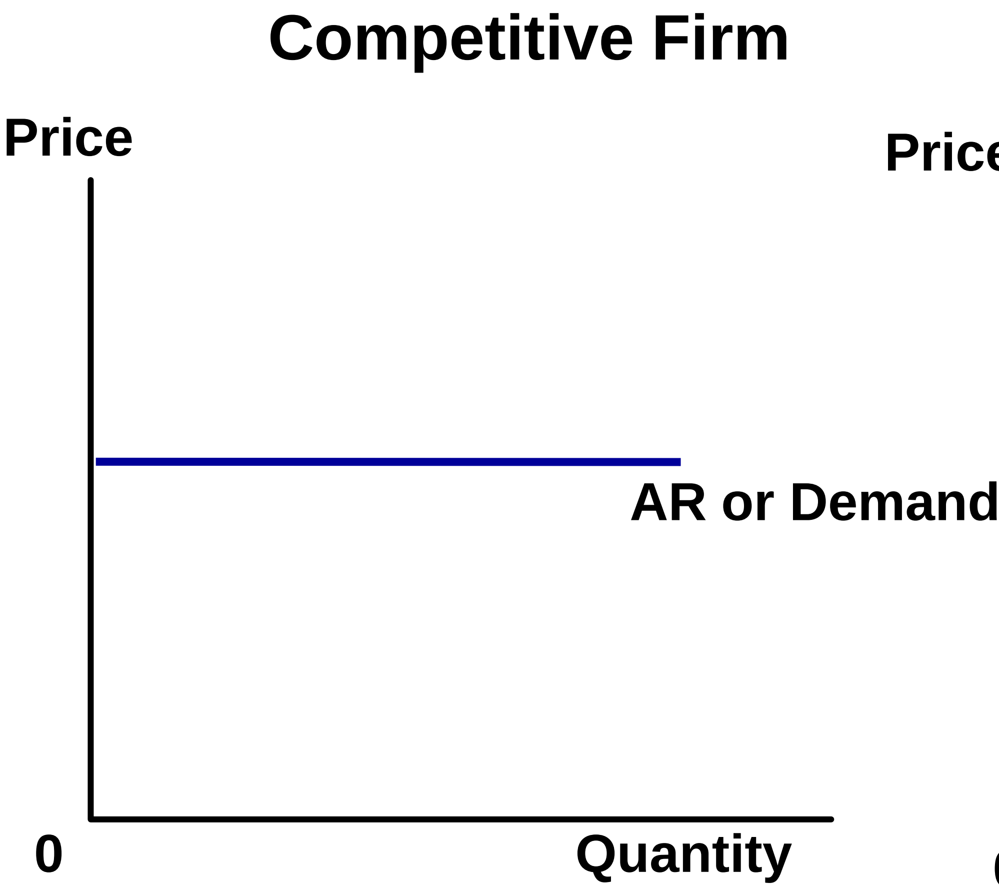
- There are no close substitutes.

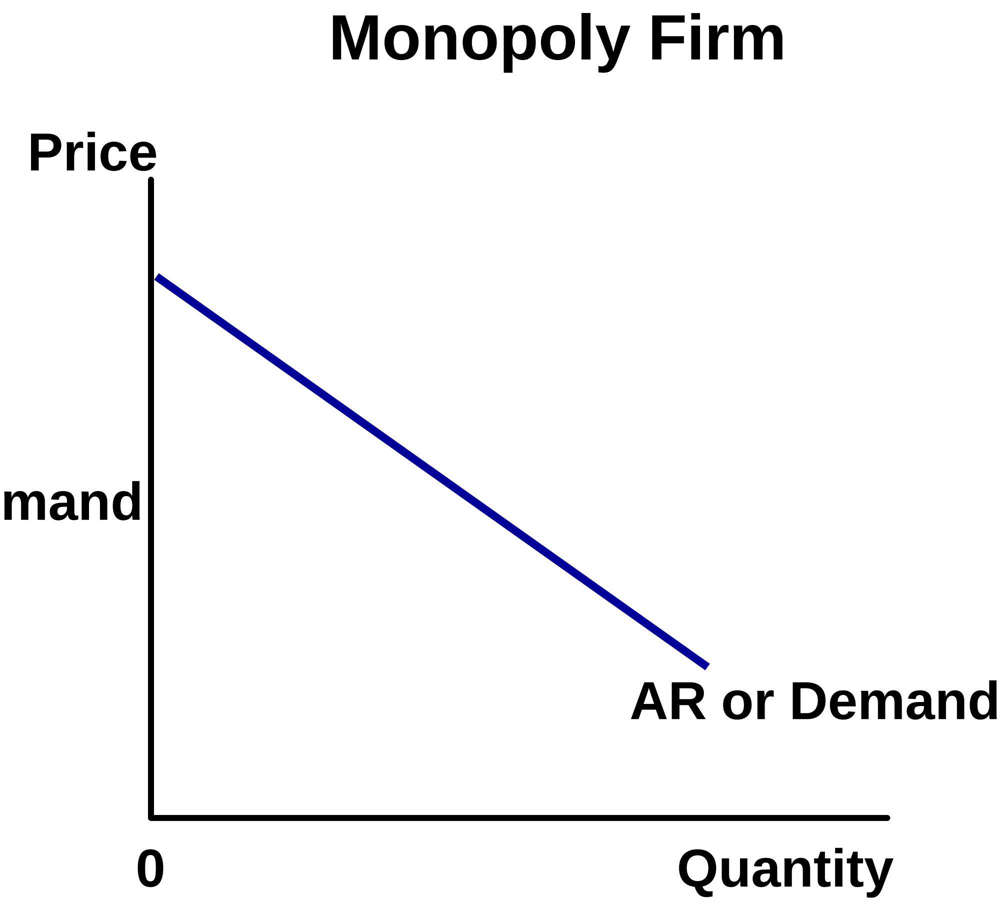
EXAMPLES: Postal and Railway Services.

ASSUMPTIONS/FEATURES OF MONOPOLY

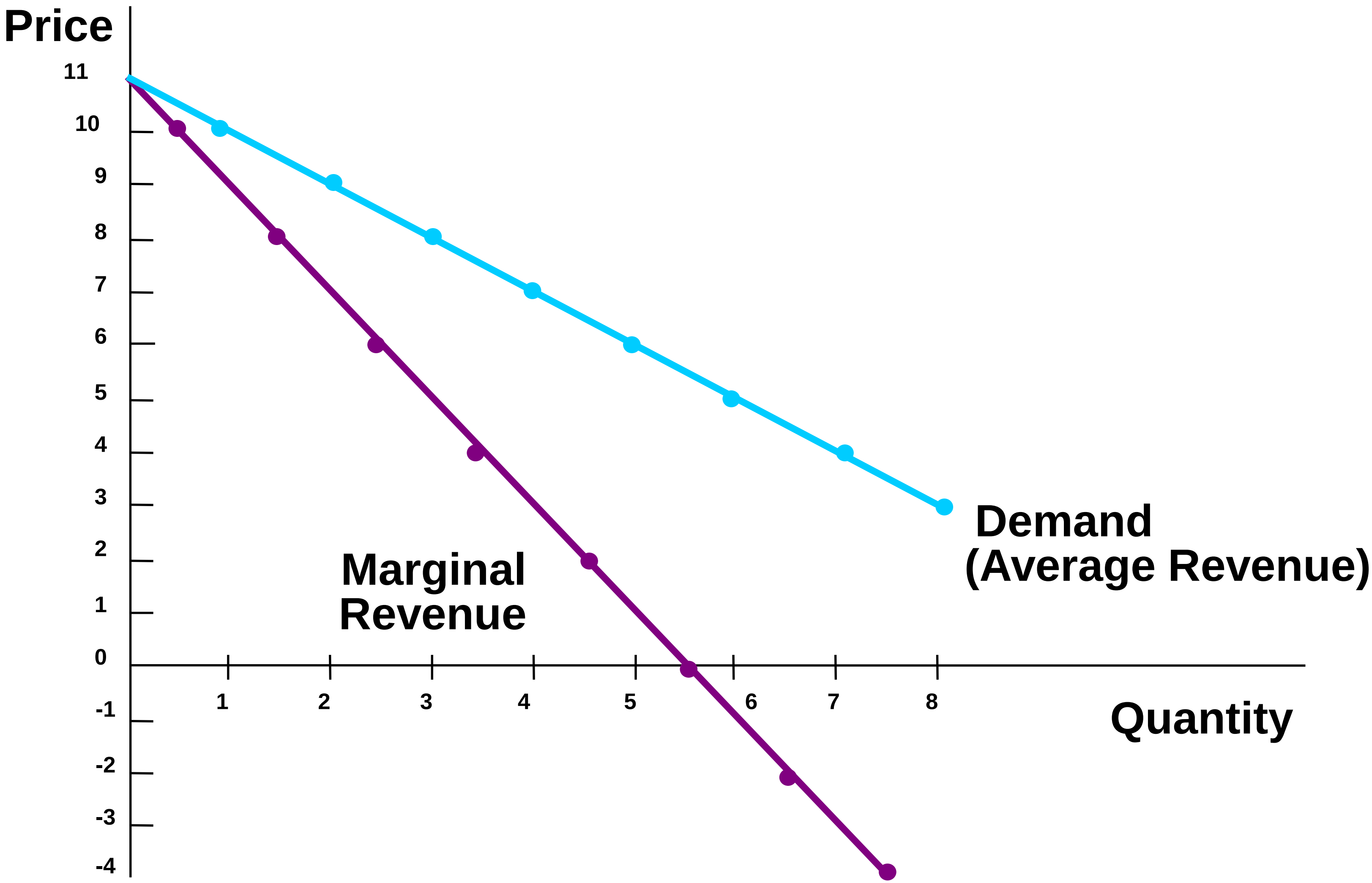
- Firm is a price maker, not a price taker.
- Entry barriers
- No difference between firm and industry
- Downward-sloping demand curve
- Reduces price to increase sales
- Monopolist’s marginal revenue is always less than the price/AR of its product
- Price discrimination

DEMAND CURVES (COMPETITIVE FIRM Vs MONOPOLY)





DEMAND/AR & MR CURVES UNDER MONOPOLY



PROFIT POSSIBILITIES UNDER MONOPOLY

- A monopoly firm maximizes profit by producing the quantity at which marginal revenue equals marginal cost.

- It then uses the demand curve to find the price that will induce consumers to buy that quantity.

  - **Profit when AR>AC**
  - **Loss when AR<AC**
  - **Normal Profit when AR=AC**

CONCLUSION: MONOPOLY Vs PURE COMPETITION

- For a competitive firm, price equals marginal cost.

  Price = MR = MC

- For a monopoly firm, price exceeds marginal cost.

  Price > MR = MC

THANK YOU ☺