MONOPOLY

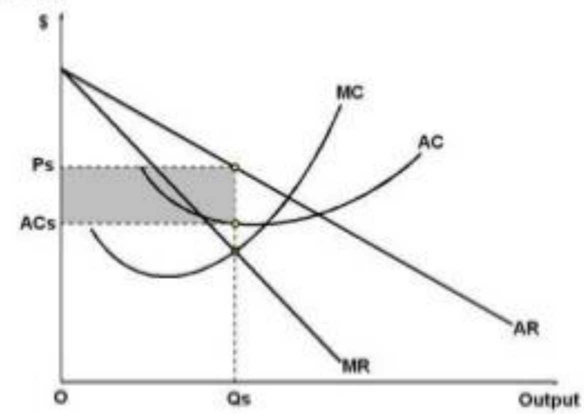
- MONOPOLY: The Word Monopoly is a Latin Term. „Mono‟ means Single and „Poly‟ means Seller.
- Monopoly is a form of Market Organization in which there is only One Seller of the Commodity.
- There are No Close Substitutes for the Commodity sold by the Seller.
- Example : Indian Railways

FEATURES OR ASSUMPTIONS OF MONOPOLY

- One seller and large number of Buyers.
- Restrictions on the Entry of the New Firms.
- No close Substitutes.
- Price Maker.
- Downward Sloping Demand Curve

Equilibrium & Price Determination

- A monopolist is in Equilibrium when he produces that much amount of output which yields maximum total profit.
  - MR must be equal to MC
  - MC must cut MR from below

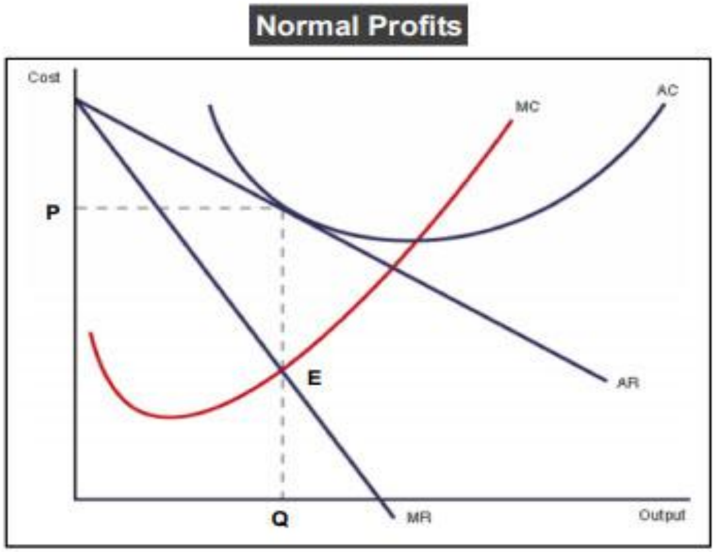


Firm’s Short-Run Equilibrium in Monopoly

- There are three possibilities for a firm’s Equilibrium in Monopoly. These are:
- The firm earns normal profits – If the average cost = the average revenue
- It earns super-normal profits – If the average cost < the average revenue
- It incurs losses – If the average cost > the average revenue

Normal Profit

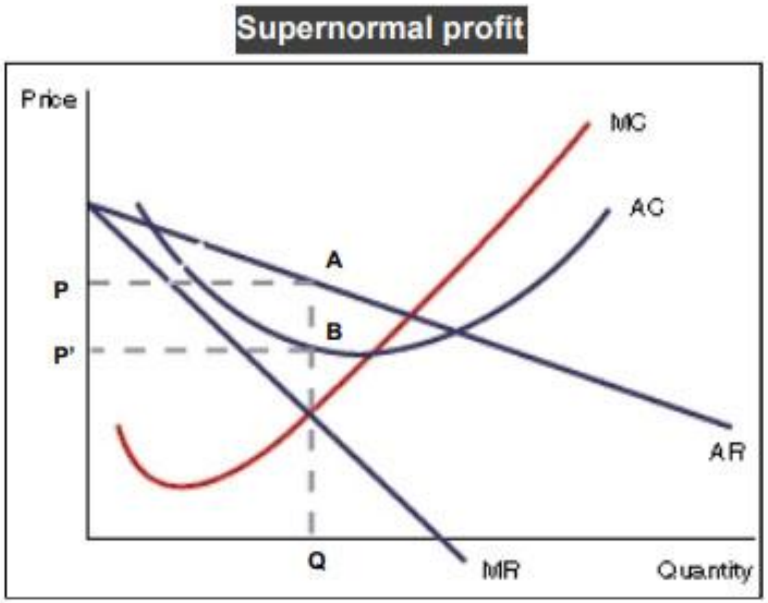
- A firm earns normal profits when the average cost of [production]() is equal to the average revenue for the corresponding output.



In the figure above, you can see that the MC curve cuts the MR curve at the equilibrium point E. Also, the AC curve touches the AR curve at a point corresponding to the same point. Therefore, the firm earns normal profits.

Super-normal profit

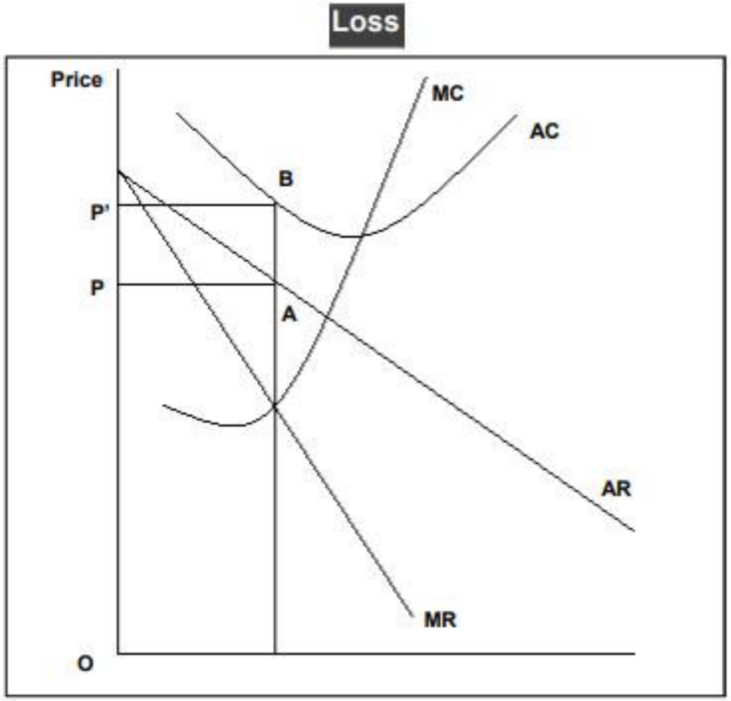
- A firm earns super-normal profits when the average cost of production is less than the average revenue for the corresponding output.



In the figure above, you can see that the price per unit = OP = QA. Also, the cost per unit = OP’. Therefore, the firm is earning more and incurring a lesser cost. In this case, the per unit profit is
OP – OP’ = PP’
Also, the total profit earned by the monopolist is PP’BA.

Losses

A firm earns losses when the average cost of production is higher than the average revenue for the corresponding output.



In the figure above, you can see that the average cost curve lies above the average revenue curve for the same quantity.
The average revenue = OP and the average cost = OP’. Therefore, the firm is incurring an average loss of PP’ and the total loss is PP’BA. In the short-run, a monopolist sometimes sets a lower price and incurs losses to keep new firms away.

Firm’s Long-Run Equilibrium in Monopoly

- In the long run firms earn normal profit.
- Normal profit: D = Market Demand ATC = Average Total Cost MR = Marginal Revenue MC = Marginal Cost

Perfect competition	Monopoly
❑ Unlimited no of firms producing similar product	❑ Single producer and large BUYERS
❑ Perfect knowledge both buyers and sellers	❑ Lack of knowledge
❑ Free entry & Exists	❑ Full control over supply
❑ Normal profit	❑ No close Substitutes
❑ Price taker or acceptors	❑ Strong entry
❑ Homogeneous in nature	❑ Strong product
❑ AR & MR are Horizontal curve	❑ Price Maker
	❑ Demand curve downward slopping curve