Section 5: Monopoly/ Monopoly power

- Pure monopolies - a single seller has 100% market share
- Monopoly power- has at least 25% market share
-high barreirs to entry
-large monopoly power(price making power)
-operates at profit maximisation ouput
-price is high and supply is restricted

Efficiencies
-Not allocatively efficient: not operating at AR=MC
-Not productively efficient: not on lowest point of AC
-Dynamically efficient in LR: earns large supernormal profit in LR due to barreirs to entry
-Can be X-ineffecient as they can slack as they may not need to
earn maximum supernormal profit(the diagram shows max supernormal profit)

Deadweight loss
-potential revenue the supplier isnt earning, and
surplus the cosumer is missing out on

Natural monopoly
-have large monopoly power
-high fixed costs so MES is at a very high quantity
-contoinous EOS so LRAC always falls
-only rational for 1 firm to supply the market as competiton
is undeirable as it would result in wasteful duplication of resources
-regulators usually step in and offer a subsidy to reduce price
which increases the quantiy supplied (to become more allocatively effecient)

Advantages
- Economies of scale- produce high output at low cost
- Invention and innovation(especially due to patents)=
= better quality = dynamic efficiency due to large supernormal profits
- Increased financial security as firms
offer stable employment
- Natural Monopolies - regulated ones move towards
becomeing more allocatively efficient
- Cross subsidisation- use sp profits to cross
subsidise loss making G/S
(price deiscrimination)

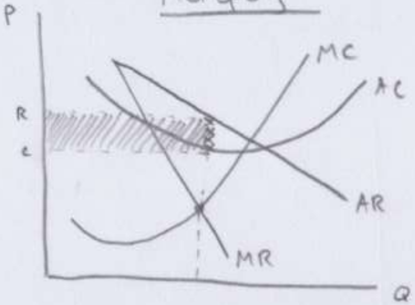
Disadvantages
- Productive inefficiency - little incentive to cut costs as
they are dominant
- Allocative ineffency- consumers have little choice as firms
operate on profit mindset
- Diseconomies of scale- communication problems/ waste generation
- X-ineffcient- they allow for waste as they lack competitive
drive and are complacent
- Inequality in necessity markets - higher price in necessity markets
will have regressive impacts

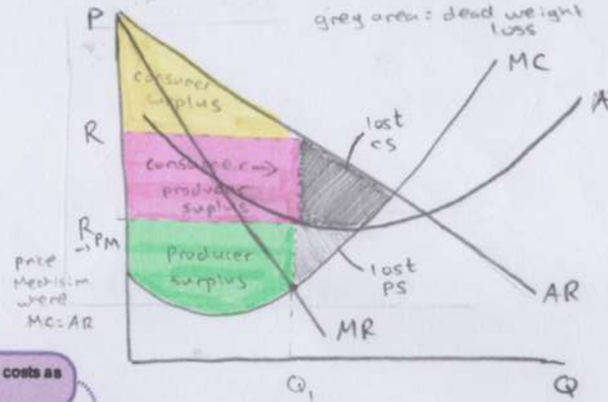
Evaluation
-How the profits are used- most may be given to shareholders, not used for investment
-objective of firm- could have sale max/revenue max/allocatively effieient goal
-level of regualtion - this will reduce inefficiencies
-price discrimination- may exaggerate the cons of a monopoly
-whether there is still some level of competition (tesco is legalaised monopoly that still competes)
-type of good or service- larger neg impacts in necessity than luxury markets

Examples
-Railways (natural monopoly)
-Microsoft
-Google
-Tesco

Monopsony
-a single buyer dominates a market and acts
as a price maker that drives down the prices
-e.g supermarkets act like a monopsonists because they force suppliers to sell
their products at lower prices leading to losses on their side
but lower prices are passed onto the consumer
-if a firms is the single buyer of labour in a market,
it can exploit its power by offering lower wages

Monopoly





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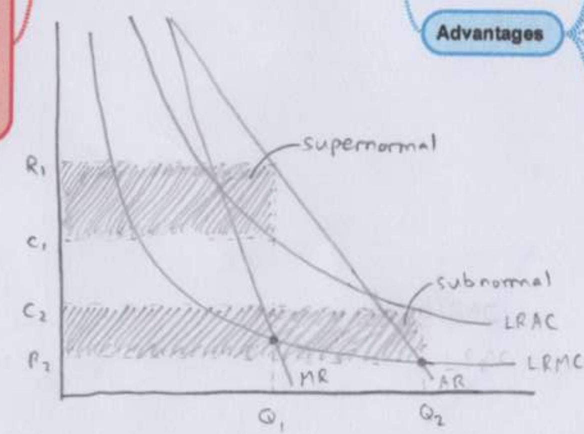
Natural Monopoly



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