Monopoly

Monopoly is a market structure of single seller selling a good which has no close substitute.

Mono= single and Poly= seller.

Characteristics

1) There is a single producer and there is no difference between a firm and an industry. A firm itself is an industry.

2) A monopoly can be an individual proprietorship or partnership or joint stock company or a co-operative or a government company.

3) Monopolists have full control on the supply of a product in the market. Hence, elasticity of demand for a monopolists product is zero.

4) There is no close substitute of a monopolists product in the market. Hence, cross elasticity of demand is very low.

5) There are restrictions on the entry of new firms.

6) Monopolists can influence the price of the product. He is a price-maker and not a price-taker.

7) Pure monopoly is not found in the real world.

8) Monopolists cannot determine both the price and the quantity of a product simultaneously.

9) Monopolists demand curve slopes downwards towards the right.

Reasons of Monopoly power

1) Patent or copyright: It might happen that a company has got an invention patented or it reserves all right to use that product. In such a scenario it has an advantage on producing the product. This ultimately results in it having monopoly rights over the product.

2) Control over an essential raw material: If a company has exclusive rights over the use of the raw materials then it results in monopoly. OPEC has got exclusive rights over the crude oil of middle-east countries so it has monopoly power over oil supply.

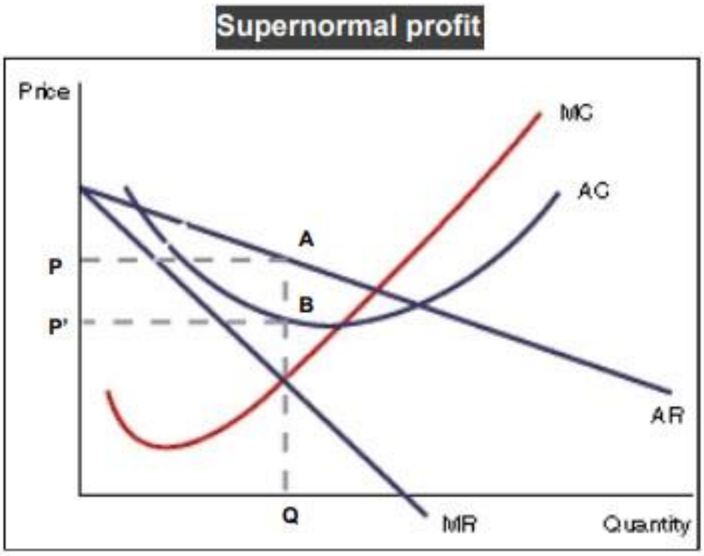
3) Grant of franchise by the government: The government may grant franchise to a company for the production of certain product. For eg: MTNL has got exclusive rights to provide landline services in Delhi.

4) Economies of scale: Natural monopoly: If a company is able to enjoy the economies of scale then he is able to sell goods at a price lower than that provided by other firms. Then the other firms will have to cut down price and this leads to price war. The firm which has the lowest price to offer emerges as the natural monopolists.

5) Advertising and brand loyalists of the firm: There are brand loyalists who do not allow any other product to become popular. There is heavy advertisement which again makes it very popular among the consumer. Coca-Cola is one such brand which is popular through heavy advertisement and because of brand loyalists.

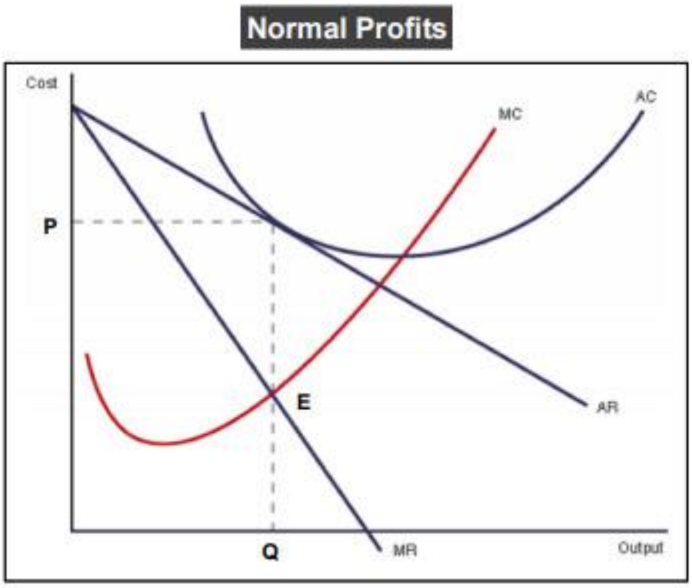
Equilibrium of Monopoly under short run

1) Supernormal Profit



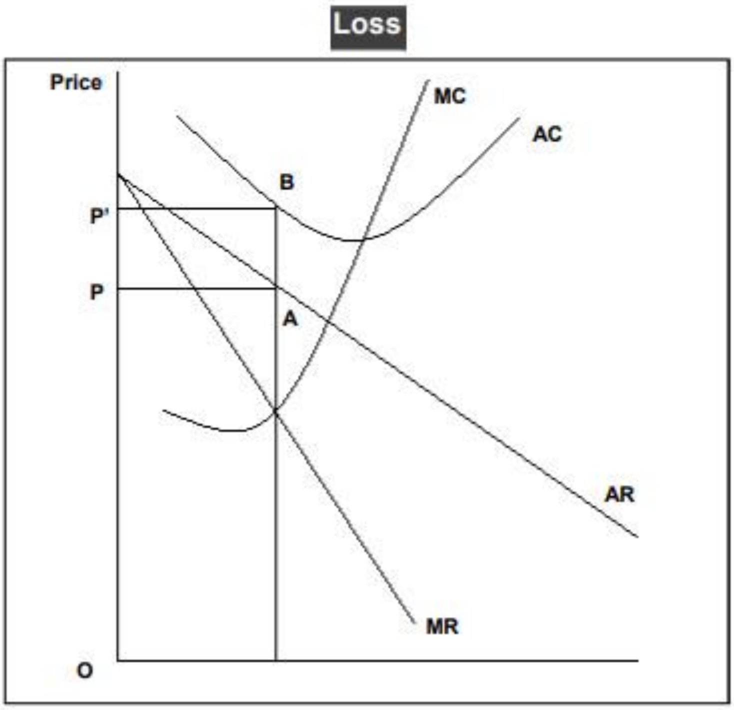
In this figure the monopolist cost curve is below revenue curve. It incurs cost equal to BQ while its revenue is equal to AQ. Since revenue is more than the cost then the monopolist is said to be enjoying supernormal profit equal to the area PAP'B. The monopolist will charge OP price and will have to sell OQ output at this price.

2) Normal Profit



In this figure the cost curve is tangent to the revenue curve. Therefore the cost and price both are OP. We know that in cost the normal profit of the entrepreneur is included. At OP price the monopolist will be selling OQ output and will be having normal profits.

3) Loss



In this figure the AC of firm has exceeded the AR curve. This means that the firm is not able to recover its cost. Its cost is equal to OP' and the revenue is equal to OP. This means that it is incurring losses equal to the area PAP'B.

Long Run Equilibrium of the Monopoly

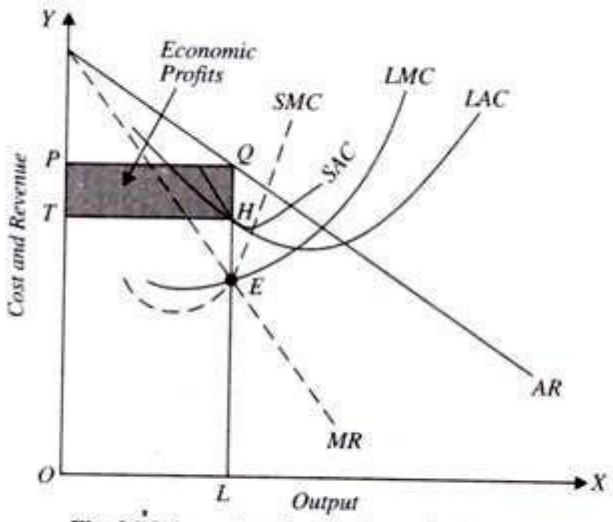


Fig. 26.5. *Long-Run Equilibrium under Monopoly*

In the long run the monopolist will stay in the business only if he is earning supernormal profit. As we can see in the figure that the monopolist is earning supernormal profit as SAC and LAC lie below the AR curve. The monopolist is earning supernormal profit equal to the area PQHT.