# MONOPOLY MARKET STRUCTURE

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# INTRODUCTION

- ‘Mono’ means one and ‘poly’ means seller. Thus monopoly refers to a market situation in which there is only one seller of a particular product. This means that the firm itself is the industry and the firm’s product has no close substitute. The monopolist is not bothered about the reaction of rival firms since it has no rival. So the demand curve faced by the monopoly firm is the same as the industry demand curve.
- Three features characterise monopoly — market in which there is only one supplier. First, the firm is in its in motivated by profits. Secondly, it stands alone and barriers prevent new firms from entering the industry; and thirdly, the actions of the monopolist itself affect the market price of its output—it is not a price-taker.

# CONCEPT OF MONOPOLY

- Some economists feel that by maintaining some barriers to entry a firm can act as the single seller of a product in a particular industry. Others feel that all products compete for the limited budget of the consumer. Therefore, no firm, even if it is the only seller of a particular product, is free from competition from the sellers of other products. Thus complete monopoly does not exist in reality.
- The monopolist is the sole seller of a particular product. Therefore, if the monopolist is to enjoy excess profit in the long run that must exist certain barriers to the entry of new firms into the industry. Such barriers may refer to any force which prevents rival firms (competing producers) from entering the industry.
- Such barriers which protect the monopolist from the encroachment of other firms may be either natural or artificial (legal). In fact, entry barrier may take different forms

# RISE OF MONOPOLY

- **Absolute cost advantage:**
- **Sole control over a basic raw material:**
- **Locational advantages**
- **No close subsitutes**
- **(iii) Barriers created by government:**
- The government of a country can also create monopoly by giving the legal right to a company to produce a particular product or render a particular service. For example, the Acts of Parliament protect India's nationalised industries such as the Coal India Ltd., or the LIC, at least partly, from competition of private firms. The State Governments also grant monopoly rights to private firm's suah as Roy's Wine Shop in Salt Lake area of Calcutta, the only duty free shop in an airport, or the only service station in a particular locality.

# FEATURES OF MONOPOLY

- **(i) Product differentiation:**
- This is an important feature of monopoly because it implies absence of close substitutes. Product differentiation enables a firm to deter the entry of new firms in the industry. This is often achieved through advertising and sales promotion. For example the Reckitt and Colman of India Ltd. is enjoying a virtual monopoly position as far as its main product, viz., Dettol is concerned. In spite of introduction of Savlon by Johnson and Jhonson Ltd., Dettol continues to be the most popular antiseptic germicidal in the country.

# FEATURES

- Absence of close substitutes:

- A monopolist produces or supplies a particular commodity which is not produced or sold by any other firms. Theoretically speaking, there cannot be any substitute for the product of a monopoly firm. But, in reality, every commodity has more or less some substitutes, near or distant. However, in monopoly the substitutes available are not close.

# OTHER IMPORTANT FEATURES

. A single producer or seller

- Absolute control over the market supply:
- A price-maker, not a price-taker
- No entry of new firms:
- Absence of competitive advertisements:
- . Equilibrium of firm and industry:

# PRICE AND OUTPUT DETERMINATION

- A monopolist, like other producers, is also guided by the chief consideration of the maximisation of net gains or the minimisation of losses. For determining the optimal output, he is required to make a comparison between marginal cost and marginal revenue. The output of the monopolist will be set at the point at which marginal revenue is equated with marginal cost.
- If marginal revenue were any higher it would pay the monopolist to increase production because the additional costs generated would be lower than the revenue, and profits would rise. The reverse would be true if marginal revenue were any lower than marginal cost. The price of the monopolist is determined by demand as the firm cannot set both output and price.
- For its chosen output, the monopolist can read price off a market demand curve, which will lie above the marginal revenue curve. The total profits of a monopolist become, as in other cases, the maximum at the output where marginal cost becomes equal to marginal revenue.

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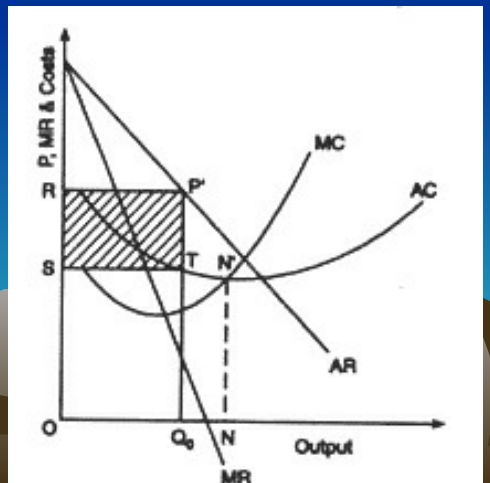
- If marginal revenue is greater than marginal cost, the monopolist will be able to increase his total profits by producing more. If, on the other hand, marginal cost is greater than marginal revenue at any level of output, he gets losses and so will reduce the output, where MC=MR. By fixing his output at the optimal level, he will fix the price of his product, which he determines from his average revenue curve.
- The equilibrium position of a monopolist in the short run is shown in Figure



# LONG RUN EQULIBRIUM

- In the long run a monopolist may produce under increasing cost or under decreasing cost or under constant cost. Equilibrium situations of a monopolist under three such cost situations can be shown in digram
- Fig. 2(a) illustrates the equilibrium under increasing cost and so both AC and MC curves are rising here. Fig. 2(b) illustrates the equilibrium under decreasing cost and so both AC and MC curves have been falling. Fig. 2(c) shows the equilibrium under constant cost when AC-MC.
- In all the three figures the equilibrium output is OQ0 and the equilibrium price is Q0P0. The area OQ0P0R is total revenue and O0TS is total cost of the monopolist. So, the area RSTP0 in all the three figures indicates the excess profit of the monopolist in the long run. It shows that a monopolist is required to take into account some more factors in fixing output and price.
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# Long run Equilibrium Diagram

- Three conditions of long run and its possible for monopolistic firm even in long run

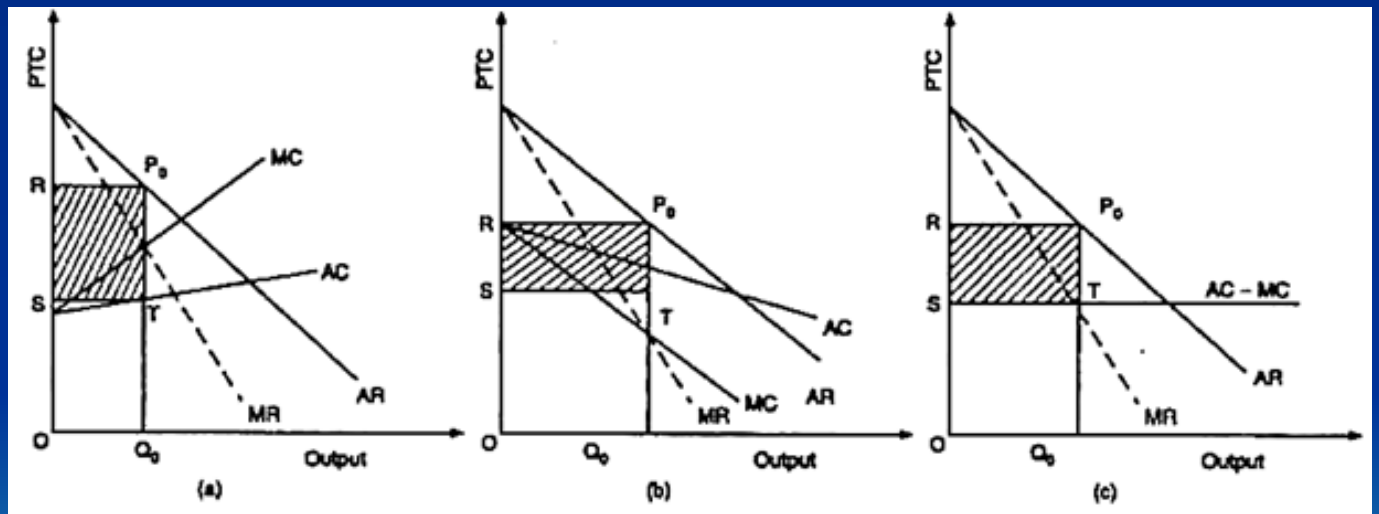


Fig. 2 : Long-run Monopoly Equilibrium

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