Price Determination under Monopoly
Monopoly

- Monopoly is a market situation where there is a single seller. There are no close substitute of the commodity it produces, there are barriers to entry.
Features

• Single seller and large number of Buyers
• No Close substitute
• Firm is the Industry
• Barriers on entry of new firms
• Producer is price maker
Types of Monopoly

- Natural Monopoly
- Pure Monopoly
- Imperfect Monopoly
- Legal Monopoly
- Public Monopoly
- General Monopoly
- Discriminating Monopoly
Demand under Monopoly

- Demand
- Cost
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
Approaches to Equilibrium & Price Determination

- Total revenue & Total Cost Approach
- Maximum profit when difference between TR and TC is maximum.
Marginal Revenue and Marginal Cost Approach

• A monopolist is in equilibrium when
  – MC = MR
  – MC cut MR from Below

• Analysis can be conducted in two time periods
  – The short run
  – The long run
Marginal Revenue and Marginal Cost Approach

• Short Run Equilibrium Under Monopoly
  – Supernormal profit

Figure 1 Equilibrium in monopolistic competition in the short-run
Short Run Equilibrium Under Monopoly

• Normal profit
  – $AR = AC$
Short Run Equilibrium Under Monopoly

• Minimum Loss
  – Due to depression
  – Fall in demand
• Continue to produce AR=AVC
Long Run Equilibrium under Monopoly

• All factors are variable
• LMC cuts MR from below
Elasticity of Demand and Monopoly Price

• Monopoly Equilibrium and Lows of costs
  – Elasticity of demand
    • Inelastic Demand - Fix high price
    • Elastic Demand - Fix law price
Effects of laws of Costs

• Diminishing Costs
• Constant Costs
• Increasing costs
Degree of Monopoly Power

- Concentration Ratio
- Profit rate
- Leaners measure
  - Degree of Monopoly Power $= \frac{P - MC}{P}$
Misconceptions

• Prices under free competition are lower than Monopoly.
• Monopolist seek maximum per unit profit
Misconceptions

• Maximum profit, not maximum price
• Maximum total profit, not maximum profit per unit
• Economies of scale
• Law of increasing return
Monopoly Price

- Large scale of production
- Fear of rivals
- Little risk
- Public welfare
- Other factors
Thank you!