



Lecture 21-22

- **Introduction to market structure**
- **Introduction to monopoly and monopsony**
- **Monopoly market**
- **Sources of monopoly power**
- **Social costs of monopoly power**
- **Antitrust laws**



Average Revenue

- **Demand:**
 - Monopolist faces a downward sloping demand curve
 - Competitive firms face a horizontal demand curve
- **Average revenue:**
 - $AR = P$ for both the monopolist and a competitive firm if there is no price discrimination
 - AR, price per unit, is just the market demand curve



Marginal Revenue

- **Marginal revenue :**
 - MR is the change in revenue that results from a unit change in output
 - MR is decreasing for a monopolist
 - $MR = AR$ for a competitive firm as it has a horizontal demand curve
- **An example:**
 - $P = 6 - Q$
 - Table 10.1
 - Figure 10.1b



Monopolist's Output Decision

- **Condition:**

- $MR = MC$

- Recall:

- For a competitive firm, $MR = AR = P$ so that the condition becomes $P = MC$

- Figure 10.2

- **An example:**

- $C(Q) = 50 + Q^2$

- $P(Q) = 40 - Q$

- $Q^* = 10$

- Figure 10.3



Why do we have Monopoly?

- **Demand:**

- **Market demand is inelastic**

- Number of firms is small
 - Collusion among firms
 - Entry barriers

- **Supply:**

- **Sunk cost is high to set up a production site**

- Natural monopoly: economies of scale
 - Sunk not fixed: compare to contestable markets



What is the Social Cost of Monopoly Power?

- **Deadweight loss :**
 - Forgone consumption
 - Forgone production
 - Figures 10.8-10.9
- **Price regulation:**
 - Price ceiling: Figure 10.10
 - Regulating a natural monopoly: Figure 10.11
 - Regulation in practice: antitrust laws



Exercises

- Q1
- Q3
- Q5
- Q8
- Q9
- Q10
- Q15

