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 + Q²
  – 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