

In Monopoly

Elastic- a small change in Price results in a big change in demand--- a reduction in Price results in an increase in TR

Inelastic- a big change in price results in a small change in demand->a reduction in Price result in a decrease in TR

Allocative Efficiency occurs when at the point of Prod.  $P=MC$

Productive Efficiency occurs when at  $P=\text{Min ATC}$  at point of Productive

In Perfect Competition-> The short run supply for a firm= MC curve above the AVC

The long run supply is determined by the Market D/S curves and whether it is an increasing, flat or decreasing cost industry

In Monopoly-> SR and LR NO supply curve since Production while pt of prod is  $MC=MR$ , since  $P$  doesn't =  $MC$ , therefore the Supply is dependent upon the Demand and MR Curve, as they change and the point where  $MC=MR$  the output of the monopolist will change

Monopoly  $P>MC$

$P$  does not equal Min ATC

How to ensure socially Optimal pricing---regulate set the Price where  $P=MC$ ? What is the result not profit maximizing

$P=ATC$ ?-no economic profit?

How can the Monopolist increase their profits by Price Discriminating. Since the Demand Curve is made up of people with different elasticities of Demand, if you can separate and segment your market than you can try to gain the consumer surplus (people willing to pay a higher price) from those who will only enter the market at a lower price. For each demand curve you will still equate  $MC=MR$ , and in both cases the Marginal revenue curve will decline at a faster rate than price.

What is a monopoly?

CL&P?

Microsoft?

Standard Oil? (Rockefeller)

Crestor (cholesterol reducing drug)?

Boeing (if Airbus didn't get subsidies)

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DeBeers

Bell Telephone until 1980s (you couldn't even buy a phone!)

Why do Monopolies come into existence?

Microsoft- Windows- unique situation where the universality of the platform-Marginal Benefit of all using the same platform- costs of switching platform, too high—how do you become the hegemon?

BETA v. VCR 1980s—Best product didn't win

How do they maintain their special market status?

Natural Monopolies- Think Economies of Scale- MES (Economic Barriers) simultaneous consumption and networking

Regulated Monopolies- Utilities

Geographic Monopolies- Sports Teams

Near Monopolies???

Legal Monopolies- Patents

Dead Weight Loss- when Price is above MC- but consumer isn't able to buy/Seller unwilling to supply since the point where  $MC=MR$  is at a higher Price and lower Quantity

Problems:

X-inefficiency—firm doesn't produce where  $MC=ATC$  which is where ATC is at its minimum point.

Rent —seeking--\$\$\$ / spent to maintain monopoly not to improve product (ie lobbying etc...)

Technology less innovative---less pressure---probably not true---\$\$\$ can be used to innovate—ie. Bell labs

Regulate]

Anti-trust

Wait it out—ignore

Set price—utility commissions

3/12 test monopoly

3/22 test monopolistic and oligopoly

4/6 resources

4/24- chapter 16- finished

Price Maker

To what degree can a monopoly set the price of a good as opposed to depending upon “consumer sovereignty”?