

MONOPOLY

The Micro Economy Today, 11th Edition
By Bradley R. Schiller

Chapter 9

I. The Basic Characteristics of Monopoly

A. Market Structure

1.

2. Examples

3. Distinguishing between market demand and individual firm demand

B. Type of product produced by the firm

1. Consumers view the product as being:

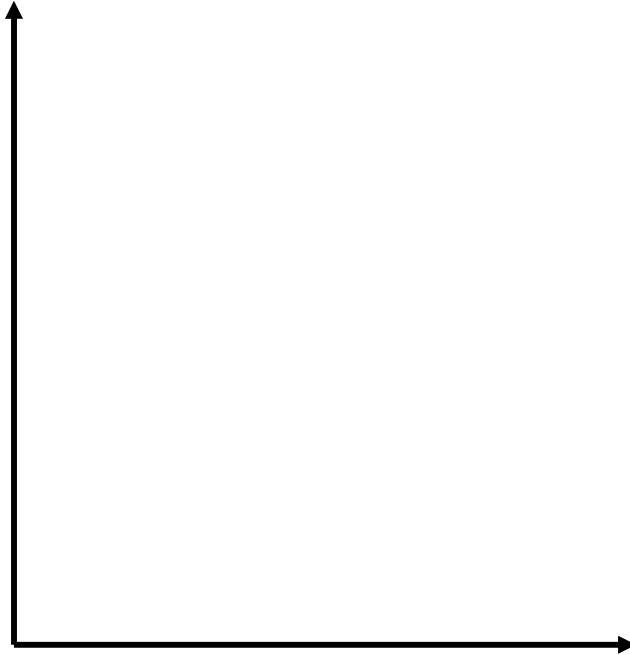
2. Therefore, according to our knowledge from Chapter 5, demand for monopoly products should be:

C. Market Power

1. The monopoly firm will have _____ market power.

2. How does the monopoly firm use it?

3. Example story with graph



D. How many real-world firms best fit the Pure Monopoly model?

II. Short-run Outcomes for a Monopoly Firm

A. When a firm has _____ , making the production decision becomes _____ .

1. What happens to the Monopoly's Total Revenue (TR) when it sells an additional unit of output?

a. Since the monopoly faces the _____, _____, it must:

b.

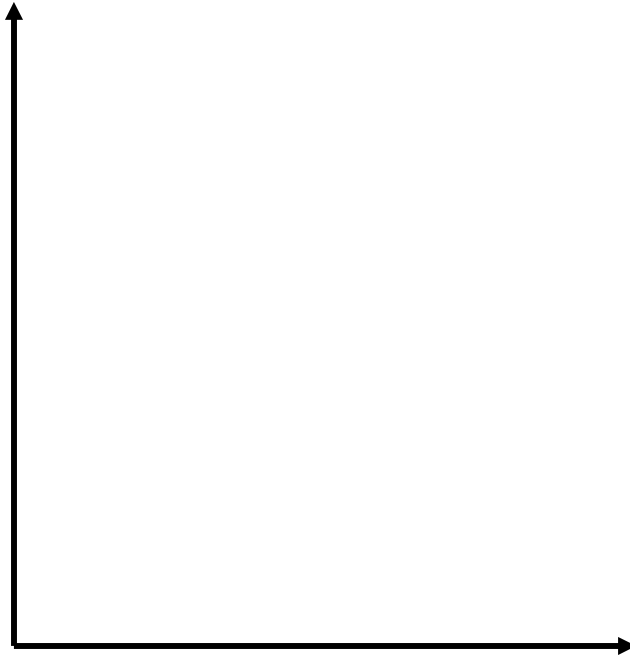
2. Consider this hypothetical information for a monopoly firm, the only oil change shop in a relatively small town.

Price per Unit	Quantity Sold	Total Revenue	Marginal Revenue
\$14	0		
\$13	1		
\$12	2		
\$11	3		
\$10	4		
\$9	5		
\$8	6		
\$7	7		
\$6	8		
\$5	9		

3. Marginal Revenue:

4. For monopoly (or any firm with market power), marginal revenue is _____
_____ the selling price for every unit sold but the first one.

5. Graph



B. Positive economic profit

1. How would we characterize this outcome?

2. Graph (use panel on page 11)

C. Economic loss

1. How would we characterize this outcome?

2. Graph (use panel on page 12)

D. Normal Profit: Zero Economic Profit

1. How would we characterize this outcome?

2. The government could _____ your monopoly firm so it earns ONLY a normal profit.

III. Investment Decisions in a Monopoly Market

A. In monopoly markets, _____ to entry are present.

Definition:

B. Let's discuss several examples of these:

1.

2.

3.

4.

5.

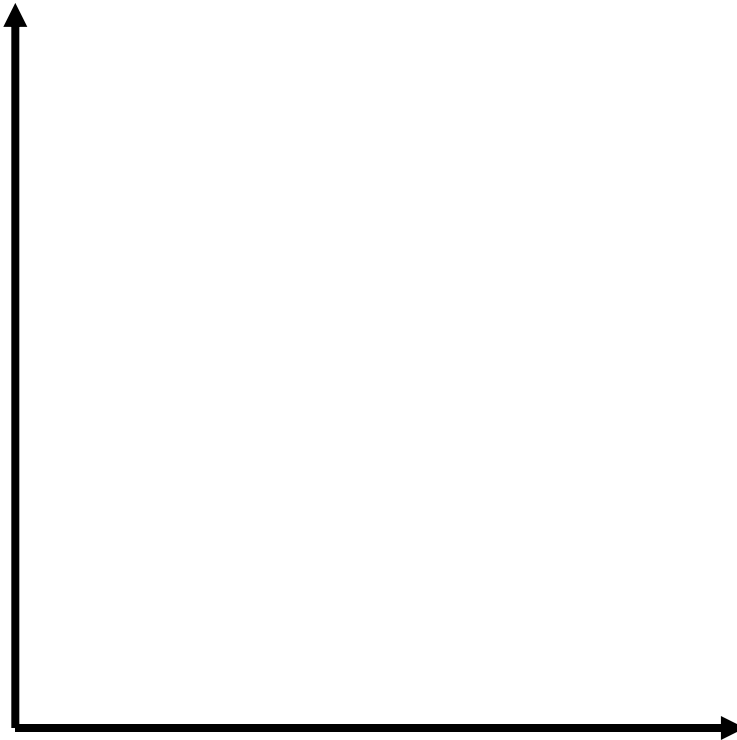
6.

C. IF the monopoly is successful at creating and maintaining THESE (and most of them are reasonably so), then:

IV. What Does Society Gain or Lose from Monopoly?

A. How does the Monopoly outcome compare to the Perfectly Competitive outcome?

1. Graph (Assumption: Demand and cost conditions are the same whether the product is produced by one large firm or by a large number of small firms.)



2. A monopoly will produce _____ output and charge customers a _____ price for it, relative to what we'd see if this product was produced in a Perfectly Competitive market.

a. The _____ mix of output gets produced.

b. Society's scarce resources get _____ in production.

c. Lack of competition means:

3. This _____ provides economic justification for:

B. Pros and Cons of Market Power

1. Research and Development

2. Quest for monopoly profit stimulates entrepreneurial activity

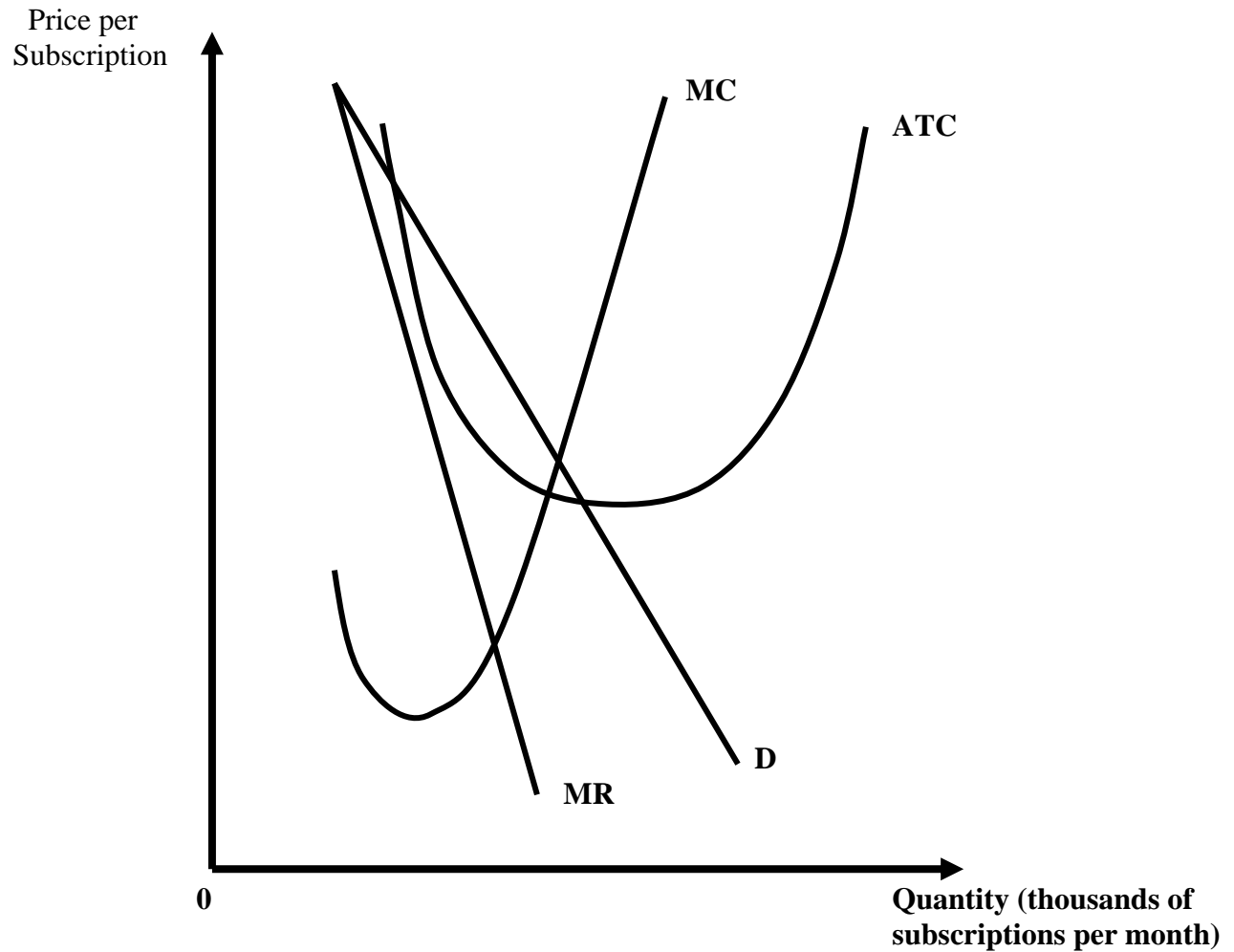
3. Economies of Scale

4. Contestable Markets

Definition:

MONOPOLY FIRM

Earning a Positive Economic Profit



Step #1a: Continue to produce output until:

Step #1b: Price comes from:

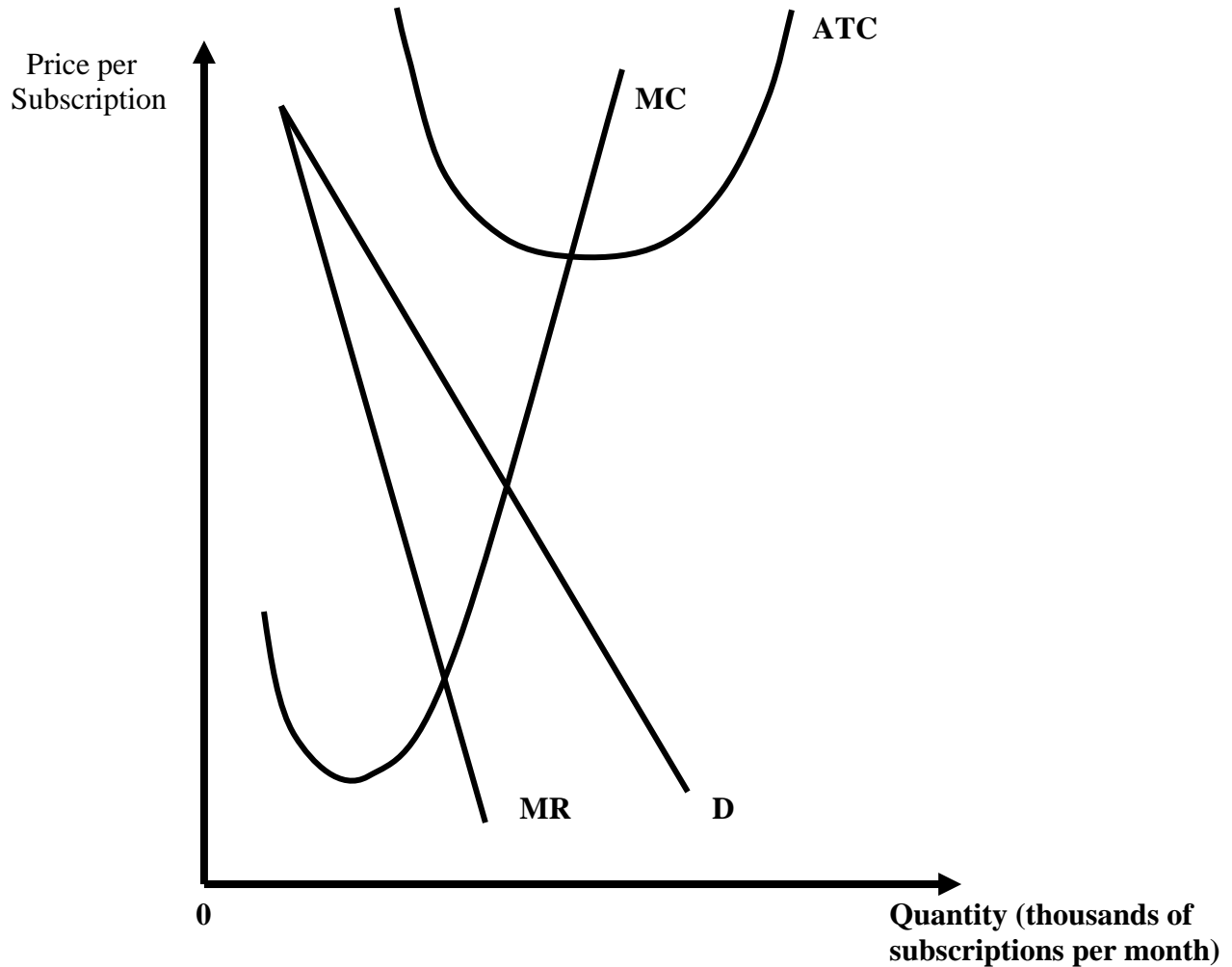
Step #2: Discover how much it costs to provide:

Step #3: Compute the Per Unit Profit (PUP).

Step #4: Compute Total Profit.

MONOPOLY FIRM

Taking an Economic Loss



Step #1a: Continue to produce output until:

Step #1b: Price comes from:

Step #2: Discover how much it costs to provide:

Step #3: Compute the Per Unit Loss (PUL).

Step #4: Compute Total Loss.