

Review of Monopoly

Characteristics:

1. One firm
2. Barriers to Entry
3. Unique products

What are barriers to entry?

Examples:

➤ Natural:

○

➤ Legal:

○

○

○

Monopoly Graph

*Marginal Revenue slopes down twice as fast as the demand curve.

What is the trick that he can do?

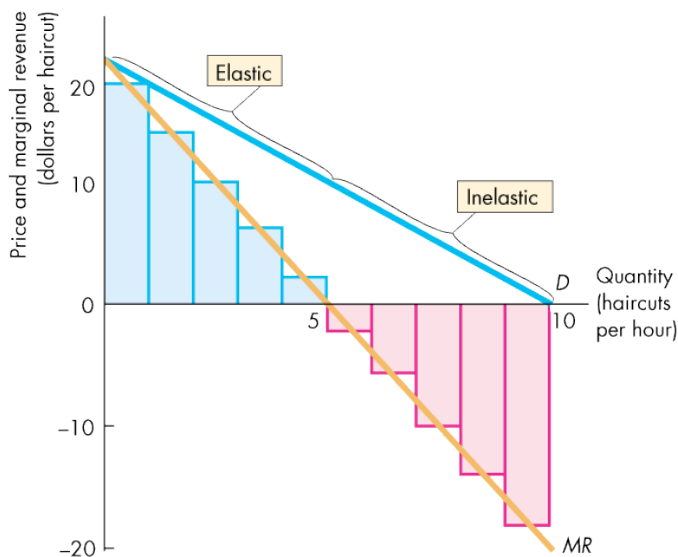
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*The price of the good is always greater than the marginal revenue.

Elasticity and the Demand Curve



(a) Demand and marginal revenue curves

Where is profit maximized?

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*Since they produce where demand is elastic, what must the monopolist do to increase its revenue?

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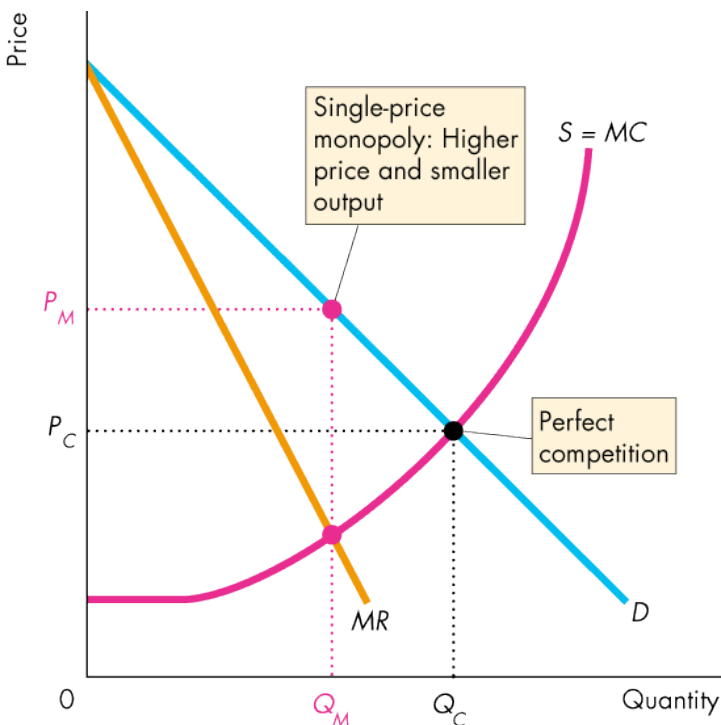
Profits of Losses

How do we determine if the firm is earning a profit or incurring a loss (Hint: the relationship between what two things)?

Draw the three graphs and label an economic profit, normal profit, or economic loss.

Relationship Between Perfect Competition and Monopoly

This is the key aspect to this entire chapter and alludes to some important statements labeled below.



The monopolist (the firm is the industry) produces where?

The perfectly competitive industry (the one with many firms) produces where?

What is the relationship between price and output of a monopolist and that of a perfectly competitive industry?

Thus, monopoly creates a deadweight loss.

*Compared to perfect competition, monopoly restricts output and charges a higher price.