# Section 3: The Cause of Monopoly (II): Acquired Construction

(2) The cause of monopoly is acquired construction by human.

For example, a producer has mastered a technology that the others do not know which can reduce the direct cost or improve the quality of the product, so he can seize the market share from competitors with lower price, or keep the demand of consumers even increasing the price and obtain higher income. Obviously, the monopolistic rent here is a return on the technology.

However, competition is everywhere. If one producer uses technical barrier to exclude competitors from the market and enjoys monopolistic rent, the other producers will compete to acquire the technology or invent better technology to build their own technical barriers.

There are several ways to protect technology. One common way is that although the technology is not a high-tech one, mastering and using it needs huge funds. In reality, with transaction cost, not everyone can easily borrow enough funds to acquire the technology, which is enough to block a group of competitors. Another way is that the technology involves complicated chemical change. As long as it is kept as trade secret, it can be protected for a long time. The third way is that the technology involves physical change. In principle, competitors can use reverse engineering to acquire the technology. This kind of technology has to be protected by the patent law. Broadly speaking, although trademarks and copyrights are not the technology with physical change, they can also bring more or less monopolistic rent to producers, and are also extremely easy to be copied. Thus, a broader intellectual property law is applicable to protect them.

However, government establish entry threshold for producers not only to protect their technologies with intellectual property laws, but also to protect their privileges with administrative license, which means there is entry control in the market, and this kind of monopoly is called “administrative monopoly”.

Administrative monopoly is fundamentally different from the monopoly stemmed from technology. Technology can benefit the society by reducing cost or improving quality, and should be rewarded in the form of monopolistic rent. If the laws do not protect the monopoly from technology, it is similar to infringe the PPRs of ordinary goods, and no one is willing to invest in R&D which can create new social wealth. By contrast, what administrative monopoly protects is not the activities to create new wealth, but just set up a barrier to keep the outsiders from entering the market to compete, thus creating monopolistic rent out of thin air.

If the entry threshold is constructed by technology, in order to protect their monopolistic rent, the producers already in the market will continue to develop new technologies and establish brand image, all of which can create more wealth for the society. On the contrary, administrative monopoly comes from government’s license of permission for entry, which will only result in producers trying their best to favor government, more precisely, government officials who have the right to issue licenses. How to favor? Naturally, producers are willing to give some of the monopolistic rent to the officials as bribes in exchange for the license, which is precisely the cause of corruption and bribery. In economics, it is called rent-seeking, because the essence of corruption and bribery is the phenomenon of seeking the rent generated by administrative monopoly.

(3) The cause of monopoly is information cost.

In this case, one producer can search price because he has more sufficient information than the consumers, and the higher income is actually the return on the information he has, which is the rent of information.

In the market structure of price-searching caused by information cost, the number of producers is often very large, not just one, which proves that defining the concept of monopoly by the number of producers is a serious mistake. This kind of cause of monopoly will be explained in the next lecture about information cost.