MONOPOLY.

- In monopoly, seller faces no competition.
- Seller is the sole-seller of goods with no close substitute.
- Price discrimination → ~~selling~~ charging different prices from different customers or for different units of the same product.
  → possible when the monopolists sell in different markets such that no unit of the commodity can be transferred from cheaper to dearer market.
- Seller in a monopoly = Monopolist
- Features :
  - → Monopoly resource
  - → Govt. regulations &
  - → Production process — @ low cost → o/p.

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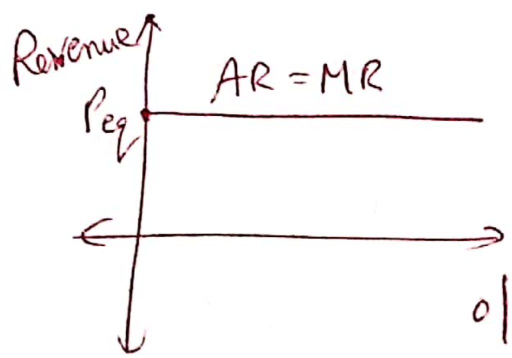
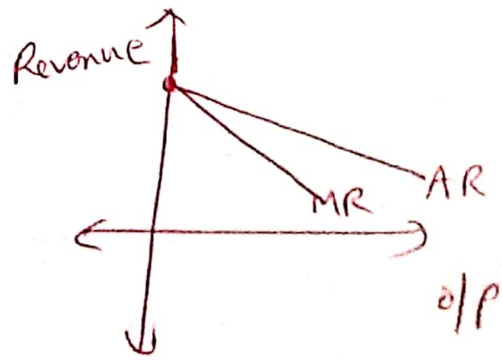
Monopoly vs Perfect Competetition

Monopoly	Perfect Competition
→ Price markers. (price set by monopolist)	→ Equilibrium price → ONLY set → price takers.
→ Price discrimination ✓	→ No price discrimination
→ Short-run → abnormal profit.	→ No abnormal profit in short-run.
→ Play with qty of goods sold.	→ different firms → different qty of goods.
→ Seller cartel → X	→ Seller cartel → ✓
→ Demand curve slopes downwards.	→ Demand curve → perfectly elastic as many firms.

→ 

AR (Aggregate revenue) = MR (marginal revenue). AR & MR curves are same @ Peq.

→ 

AR & MR curves are separate.

Market Structures:

Monopoly (Extreme)

Oligopoly — only few ~~many~~ sellers sell similar/identical products.

Monopolistic competition — many firms sell similar but not identical products.

Perfectly Competitive (Extreme)

Characteristics of monopolistic competition
→ Many sellers
→ Product differentiation
→ Free entry & exit
→ Eg: Appartments, fast food, night clubs.

Perfect Competition

→ Many sellers
→ Same products are sold.
→ Price takers ⇒ no market power.
→ Free entry/exit
→ Long run → no eco. profits
→ D curve straight (perfectly elastic)

Monopolistic Competition.

→ Many sellers
→ Similar but not identical (differentiable) products are sold.
→ Price Makers.
→ Free entry & exit
→ Long run → no economic profits.
→ D curve sloping downward.

↳ Monopoly | Monopolistic Competition.

→ long run → eco. profits → +ve | → No profits in long-run eco.

→ Only 1 sellers | → Many sellers

→ No close substitute | → Many close substitutes

→ No free entry & exit. | → free entry & exit

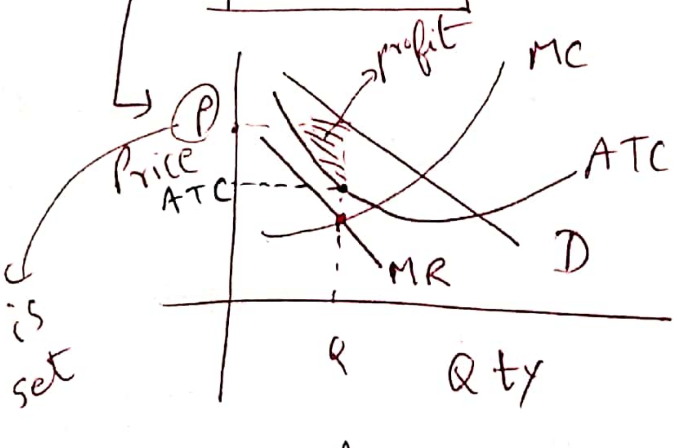
→ ✓ Market power | → Price markers.

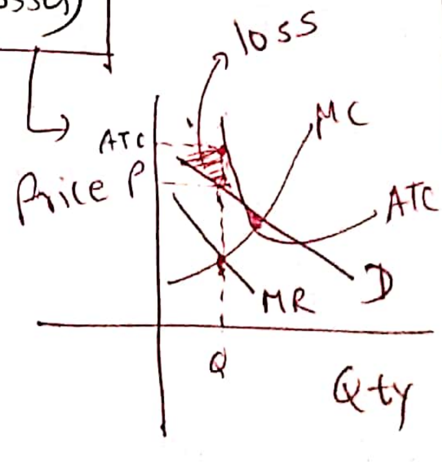
→ D curve sloping downwards in both cases.

↳ Monopolistically Competitive firm in

Short-run (profits)

Short-run (Closses)





P is above ATC

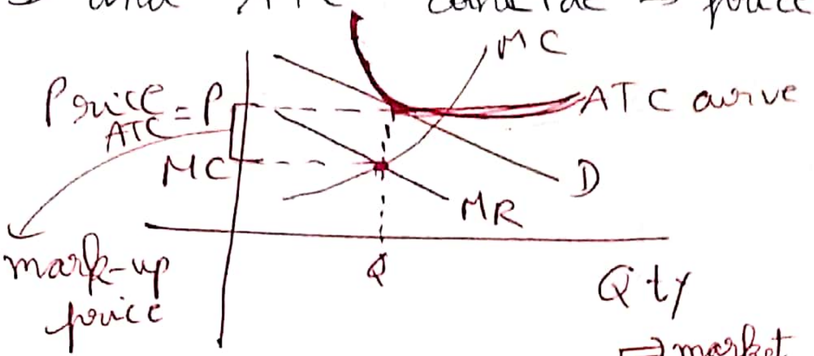
Profit = ATC with demand △

P is below ATC.

Loss = ATC with demand △.

↳ Monopolistic Competition in the long-run:

→ D and ATC coincide → price → P.



Firm sets a mark-up price b/w P and MC.

→ P = ATC ⇒ no profit. $\boxed{P > MC}$ ⇒ market quantity → lower than the socially effecient qty.

→ Long-run → due to free entry & exit → new firms enter & existing firms with ↓ profit exit.

↳ Monopolistic competetion → ↓ effecient than perfect competition:

→ Excess capacity → Monopol. compet. → downward sloping part of ATC → considered. Perfect → ATC is minimised.

→ Mark-up over MC → P = MC (perfect comp.)
→ P > MC (monopolistic compet)

↳ Monopolistic Competition & its welfare:

Monopolistic Competition
↓
2 externalities

Product-variety externality → New products → intro → consumers → surplus varieties.

business-stealing externality → Free entry & exit ⇒ new firms enter ⇒ old firms → profit ↓.