INTRODUCTION TO ECONOMICS

LEARNING JOURNAL UNIT 4

ECON 1580-01 INTRODUCTION TO ECONOMICS - AY2024-T3

FEBRUARY 27, 2024

INSTRUCTOR: CHRISTOPHER STUTTS

A monopoly exists when a single firm controls a large majority of total sales for a product or service. "A firm which the sole producer of goods or service which there aren't any related substitute and that entry by potential rivals is prohibitively tough." (Tregarthen & Rittenberg, 2009, p.253). There are three key necessary conditions for creating a monopoly.

First, a ***barrier to entry*** needs to exist for potential competitors. This might involve the monopoly holding exclusive rights over technology or resources that new firms can't easily access when trying to offer a similar product. For *example*, a pharmaceutical giant may hold multiple patents on drugs they produce, blocking other manufacturers. Government restrictions like tariffs on imports can also establish effective barriers against new firms in a market.

Second, there must be ***no close substitute*** products that consumers could purchase instead. By having a unique or vastly superior product with few good alternatives available, a company can set prices higher without losing sales. One *example* today might be a firm like Tesla that makes electric vehicles vastly different from standard gas cars.

Finally, a monopoly often uses major competitive advantages like ***economies of scale, contracts with suppliers, or vertical integration*** to make it difficult for other smaller firms to effectively compete on price and scale. The goal is to operate at a low enough cost that rivals struggle to match prices and remain profitable.

In summary, by securing barriers to entry, ensuring no close substitutes exist, and leveraging cost advantages, companies can more easily assume and hold a pure monopoly position within a particular market over the long run. These conditions severely limit competition.

Word count: 274

REFERENCE:

Rittenberg, L. & Tregarthen, T. (2009). Principles of Microeconomics v1.0. Retrieved from https://catalog.flatworldknowledge.com/catalog/editions/rittenberg-principles-of-microeconomics-1-0