Learning Journal Unit 4

Department of Computer Science, UoPeople

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## Necessary Conditions for a Monopoly Position to Be Established

A monopoly position is established when a single firm dominates the market for a particular product or service, effectively eliminating competition. For a monopoly to exist, certain conditions must be met that create barriers to entry and allow the monopolist to maintain its dominant position. One key condition is **control over a unique resource or technology**. If a company possesses exclusive rights to a raw material, patent, or proprietary technology, it can prevent other firms from entering the market. This situation often leads to what economists call a "natural monopoly," where the firm is the sole provider due to its access to resources that competitors cannot obtain. For instance, De Beers established a monopoly in the diamond industry through its control over diamond mines (Carlton & Perloff, 2015).

Another necessary condition is the presence of **high barriers to entry**, which can be in the form of legal restrictions, such as government regulations or licensing requirements, or in the form of high initial costs. When these barriers are substantial, new firms are discouraged from entering the market, allowing the monopolist to set prices without concern for competitive pressures. This is seen in industries like utilities or telecommunications, where the infrastructure required is so costly that it deters potential competitors. For example, AT&T held a monopoly in the telecommunications industry for several decades due to regulatory barriers and its extensive infrastructure (Gruber, 2019).

Lastly, **network effects** can reinforce a monopoly position. When a product or service becomes more valuable as more people use it, the firm offering that product gains an advantage that is difficult for competitors to overcome. This effect is evident in the technology sector, where companies like Microsoft and Facebook have achieved monopoly or near-monopoly status due to their large user bases. As more people adopted Microsoft Windows, for example, the software became the industry standard, making it increasingly difficult for alternative operating systems to gain a foothold (Shapiro & Varian, 1999). Therefore, control over resources, high barriers to entry, and network effects are crucial conditions for establishing and maintaining a monopoly position.

### References

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Gruber, H. (2019). The economics of mobile telecommunications. Cambridge University Press.  
Shapiro, C., & Varian, H. R. (1999). Information rules: A strategic guide to the network economy. Harvard Business School Press.