MONOPOLY:-

Greek words

'mono'=single

'poly'= seller

Monopoly is that form of market in which a single seller controls the whole supply of a commodity which has no close substitutes.

FEATURES OF ***MONOPOLY***

1. Single seller:- The single seller may be an individual owner or a group of partners, or a joint stock company or the state.
2. No close substitutes:- The commodities produced by the monopolist must not have any close substitute. This ensures that there is no rival to the monopolist. As substitutes are not available, the monopolist holds control over the price.

3. Barriers to entry:- In a monopoly type of market, there are strict barriers or restrictions on the entry of new firms. As restrictions are placed on the entry of new firms monopolist faces no competition.

Barriers may be in the form of:

a) Economies of scale enjoyed by the firm.

b) Control over essential inputs/ specialised or strategic inputs.

c) Huge initial capital investment requirements.

d) Exclusive patents/ licences.

e) Existence of unused capacity.

4. No difference between firm and industry:- Since there is only one firm under monopoly, that single firm constitutes the whole industry. Therefore, the distinction between the firm and industry disappears under conditions of monopoly.

5. Uniform or discriminate pricing:-The monopolist, either follows uniform pricing or discriminatory pricing policy. If he follows uniform pricing and charges a single uniform price for all customers, simple monopoly will come into existence. If he charges different prices to different prices to different buyers or different units of his product, discriminate monopoly will be in force.

6. <u>Complete control</u>:- As the monopoly market is characterised by the existence of a single seller, he can exercise full control over the supply of his product or price. But he cannot control both at the same time.

7. <u>Price Maker</u>:- Monopoly producer is a price maker and not a price taker. He can set price to his maximum advantage.

8. Profit Maximisation:- In any situation, the ultimate aim of the monopoly producer is to maximise his profits. In fact, he can earn super normal profits not only in the short period but also in he long period.

9. No selling cost:- As there is no competition, the monopoly producer does not spend anything on advertisement and salesmanship. However, informative selling costs may be there.

Equilibrium of the Monopolist Firm(& Industry) in the short run

The monopoly firm(industry) maximisesits profit in the short run if the following conditions are fulfilled.

(1) MC=MR

(2) MC must cut MR from below.

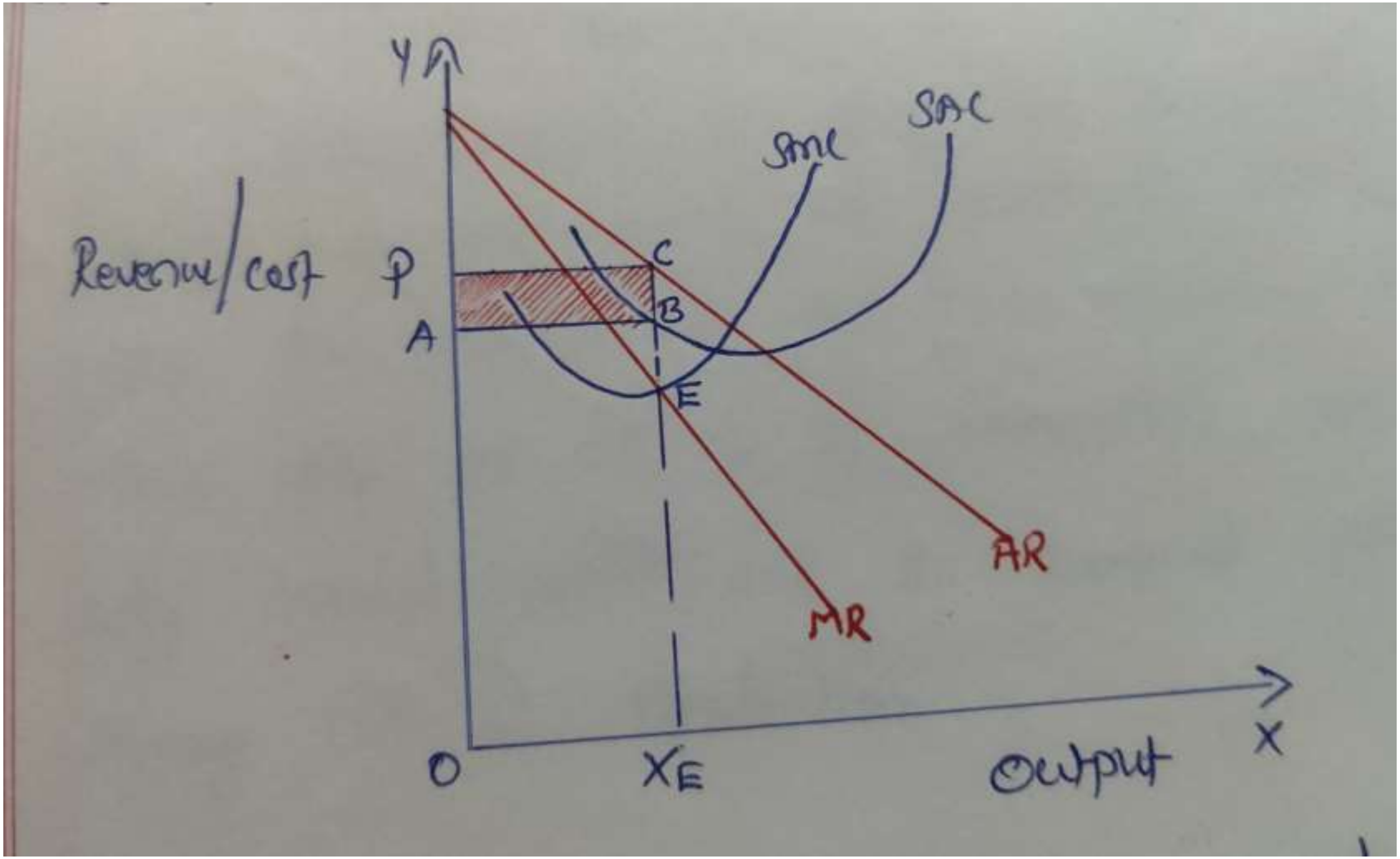
A monopolist, in equilibrium may face three situations in the short- run.

(a) Excess Profit,(b) Normal Profit, (c) Losses

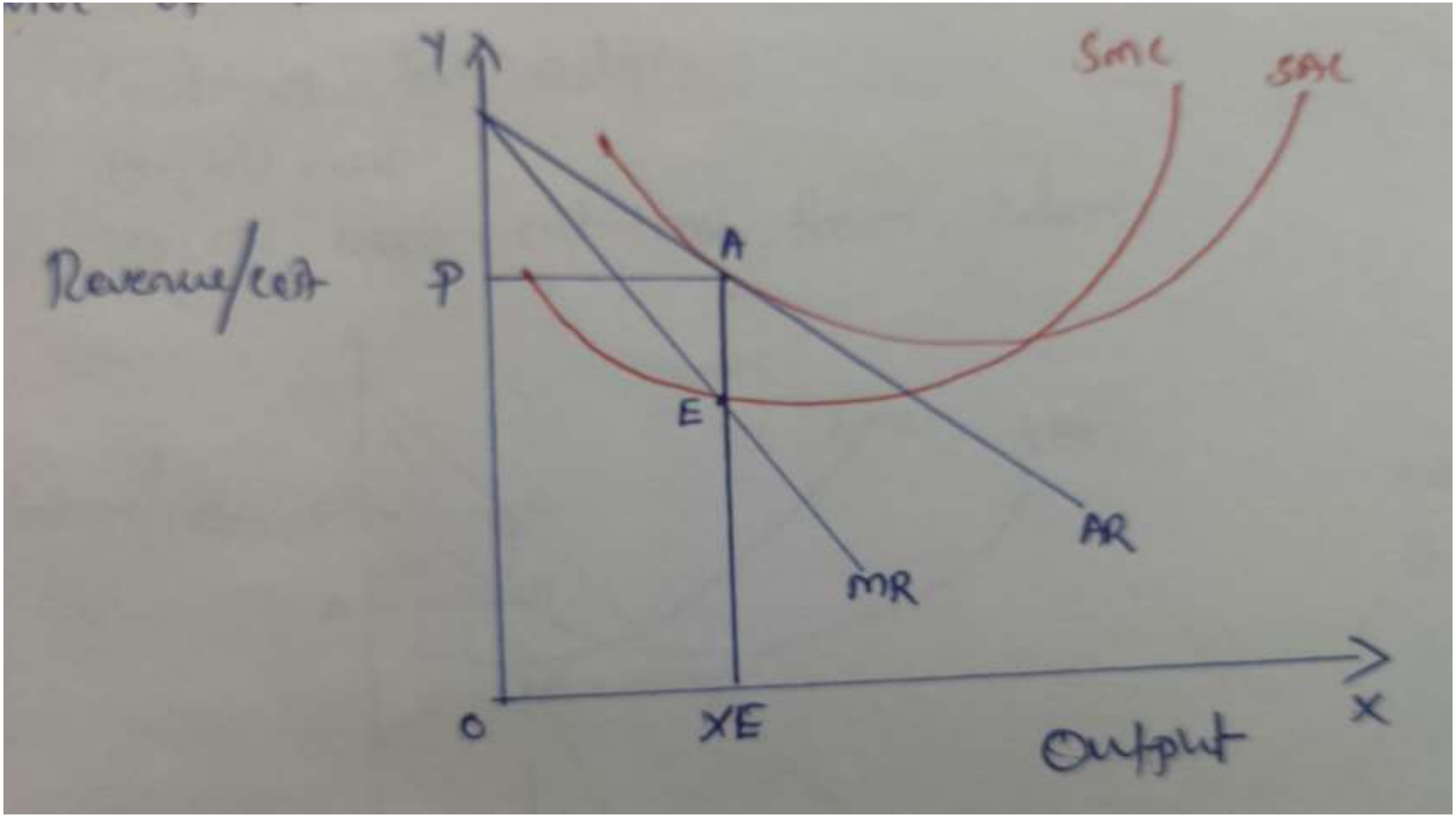
(1)Excess Profit:-

If the Average Revenue(AR) fixed by the monopolist in equilibrium is more

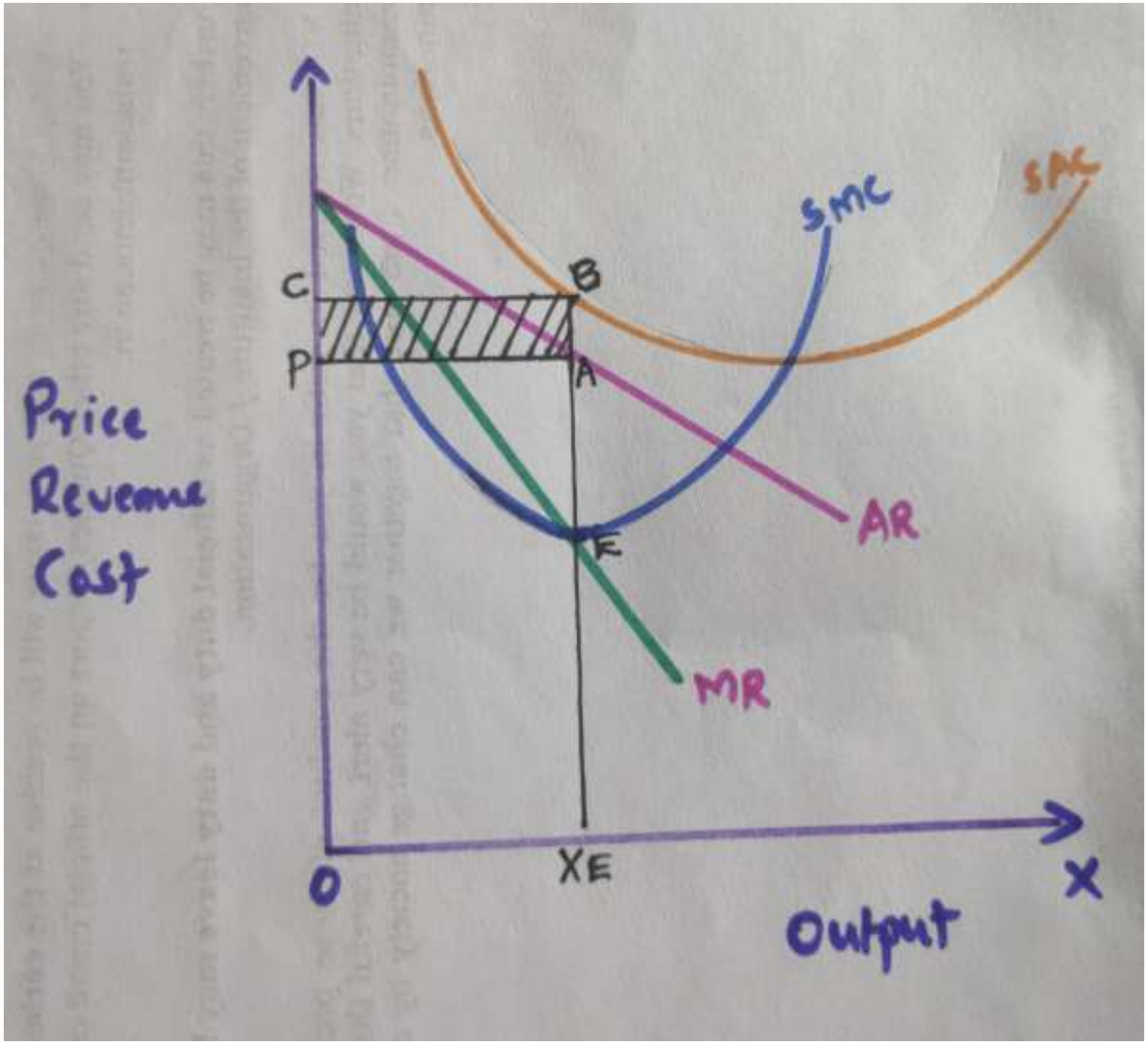
than the Average Cost(AC) the monopolist will earn excess profits.



(2) Normal Profit:-

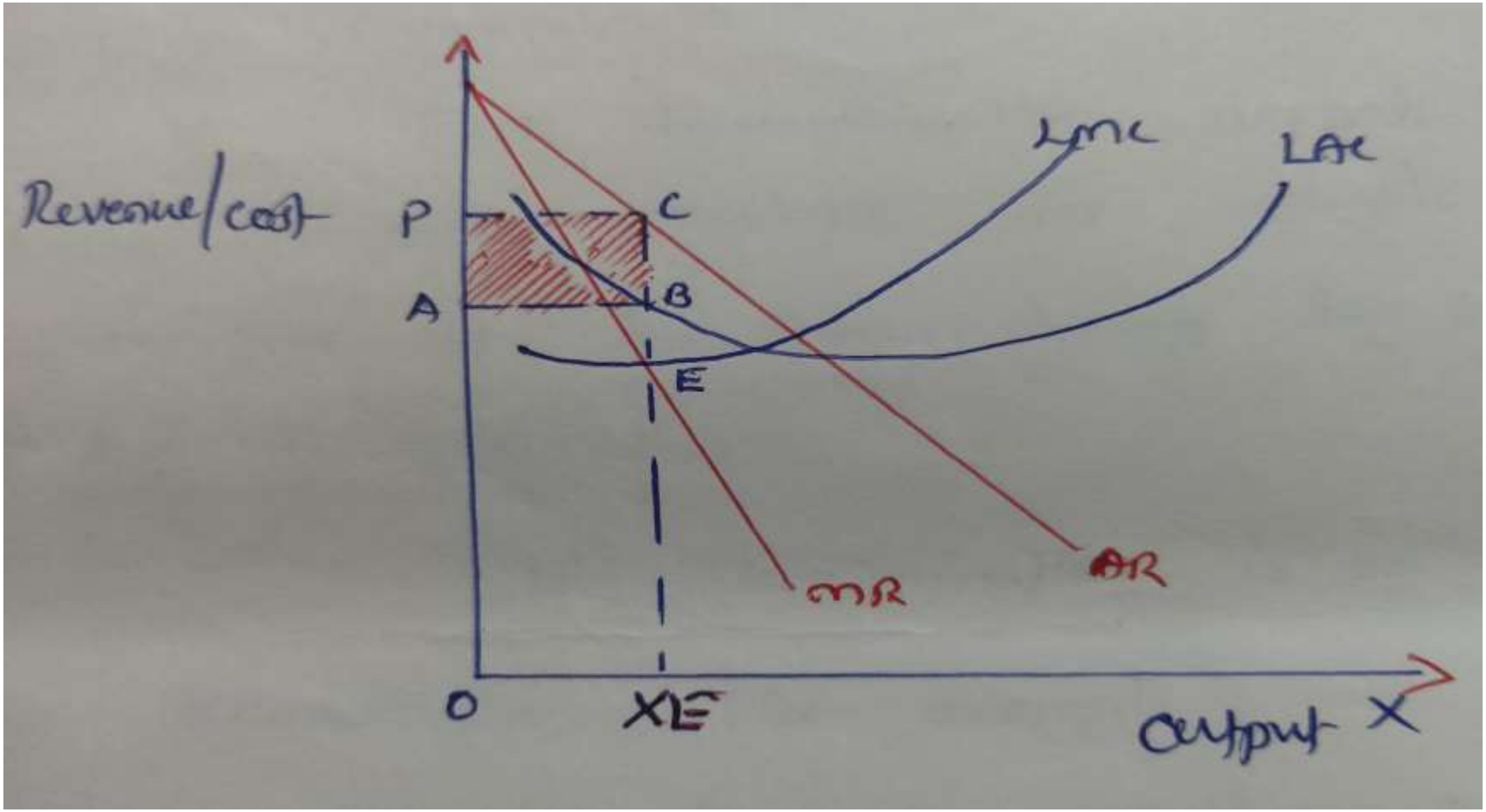


(3) Losses:-

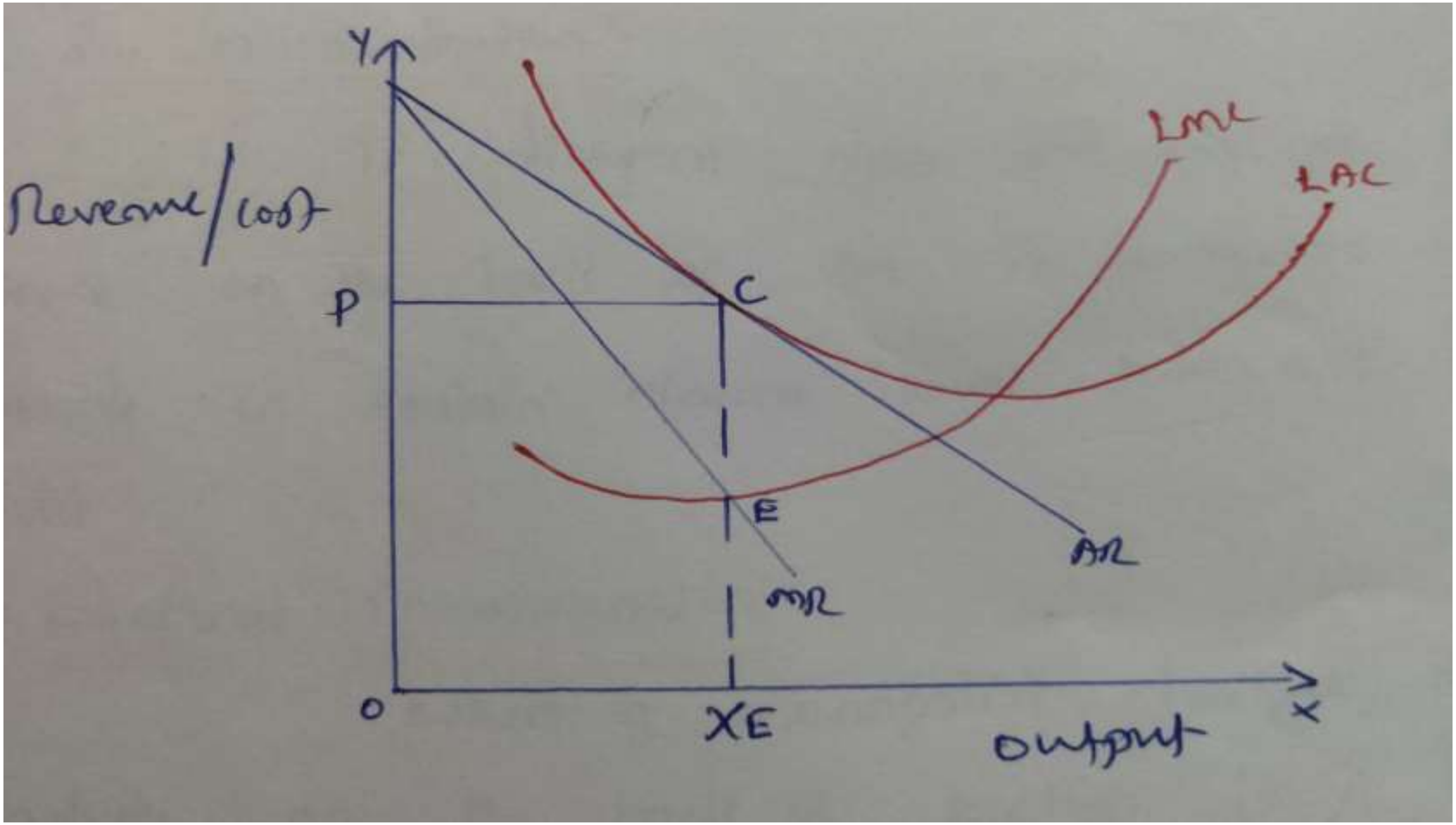


Monopoly Equilibrium in the Long-run

(1) Excess Profit:-



(2) Normal Profit:-



Forms of Price Discrimination under Monopoly

1. Personal Discrimination:- Price discrimination is personal when different prices are charged for different persons. For example, Lawyers charge different rates of fees to different types of clients, depending on their income and status.
2. Time Discrimination:- Time discrimination depends upon the time at which the service is being rendered. For example, telephone rates for STD during night time is less than during day time.

3. <u>Age Discrimination</u>:- If discrimination is on the basis of age, it is referred to as age discrimination. For example, bus transport companies and railways charge half the rates for children below 12 years of age.

4. <u>Sex Discrimination</u>:- If different rates are charged for the same product or service on the basis of sex, it is known as sex discrimination. For example, in certain cinema houses, ladies are admitted to shows at concessional rates.

5. **Locational Discrimination**:- When a monopolist charges different rates for identical products on the basis of location, it is known as locational discrimination. For example, dumping.

6. **Size Discrimination**:- On the basis of quantum of transactions, different rates may be charged.eg, prices in the retail market is higher than prices in the wholesale market.

(7)Quality Variation Discrimination:- If the price discrimination is attributed to the quality of the product, it is called quality variation discrimination. For example, paper back is cheaper than the deluxe editions of the same book, meant for libraries.

(8)Special Service Discrimination:- If price discrimination is resorted to on the basis of comforts or special services, it is known as special discrimination. For example, Air travel fee differs for first class travel from second class travel.

(9) Use Discrimination:- If different rates are charged for the same service on the basis of its use is known as use discrimination. For example, Electricity board may charge less for industrial users and more for domestic users.

(10) Product Discrimination:- If discrimination is based on products it is known as product discrimination. For example, Railways charge different rates for carrying coal and bales of cotton for the same distance.

DEGREES OF PRICE DISCRIMINATION

(1) First Degree Price Discrimination:- In the first degree price discrimination the monopolist charges different prices for every unit of commodity.

(It can occur only when there are few buyers and the monopolist is shrewd enough to know the maximum price they will pay)(take-it-or-leave-it price discrimination)

It means he charges the price accordingly, to extract entire amount of consumers surplus. Mrs. Joan Robinson refers to this kind of discrimination as Perfect Discrimination.

(2) Second Degree Price Discrimination:- In second degree price discrimination, the Monopolist charges different prices for a specific quantity or block of output. It means Monopolist will sell one block of product at one price and another block at lower price.(cubic feet of gas, kilowatt, hours of electricity, minutes of telephoning- that can be easily metered, recorded and billed) Second degree price discrimination is more common than first degree.

In second degree price discrimination, the firm captures parts of consumer's surplus

(3) Third Degree Price Discrimination:- In third degree price discrimination, the monopolist divides his buyers into two or more than two sub-markets on the basis of elasticity of demand and charges a different price for consumers in each sub market.

Dumping

It means a monopolist sells his product at a higher price in the home market and lower price in the international market. This may be to clear the excess or outdated stock or to increase the market share, or to avoid competitors.

Regulation of Monopoly

1.Increasing competition with Antitrust Laws:-

Antitrust laws are statutes developed by governments to protect consumers from monopoly practices and ensure fair competition. Antitrust laws allow the government to prevent merger. They also allow the government to breakup companies. Further, antitrust laws prevent the companies from coordinating their activities. In India there is the MRTP Act (Monopolies and Restrictive Trade Practices Act) to control monopolies.

2.Regulation:-

Through regulation the government does not allow the companies to charge any price as they wish. The government agencies regulate the price. For example, water and electricity charges are regulated by the government authorities.

3.Public Ownership:- In this case, instead of regulating monopoly run by a private firm, the government run the monopoly itself. That is the government become the owner.

However, each of these measures have some drawbacks. Therefore, some economists argue that it is better not to regulate monopoly pricing.