

## Chapter 8 – Monopolies

Monopoly market assumes that:

1. There is only one firm in the industry
2. Barriers to entry exist
3. May be able to make abnormal profits in the long run

Barriers to entry in a monopoly market:

- Economies of scale
  - Large firms gain economies of scale and hence costs for the firm will be lower than that of a new firm in the industry with a lower production
- Natural monopoly
  - There are only enough economies of scale to support one firm to make abnormal profit
  - If one extra firm joins, both firms will make subnormal profit
  - The reasons for natural monopolies to occur
  - [http://www.economicsonline.co.uk/Business\\_economics/Natural\\_monopolies.html](http://www.economicsonline.co.uk/Business_economics/Natural_monopolies.html)
- Legal barriers
- Brand loyalty
  - Some brand names are so strong that firms refrain from joining that industry
- Anti-competitive behaviour
  - This is in fact illegal
  - Start a price war that often results in a larger firm winning because they can sustain loss for a longer period of time