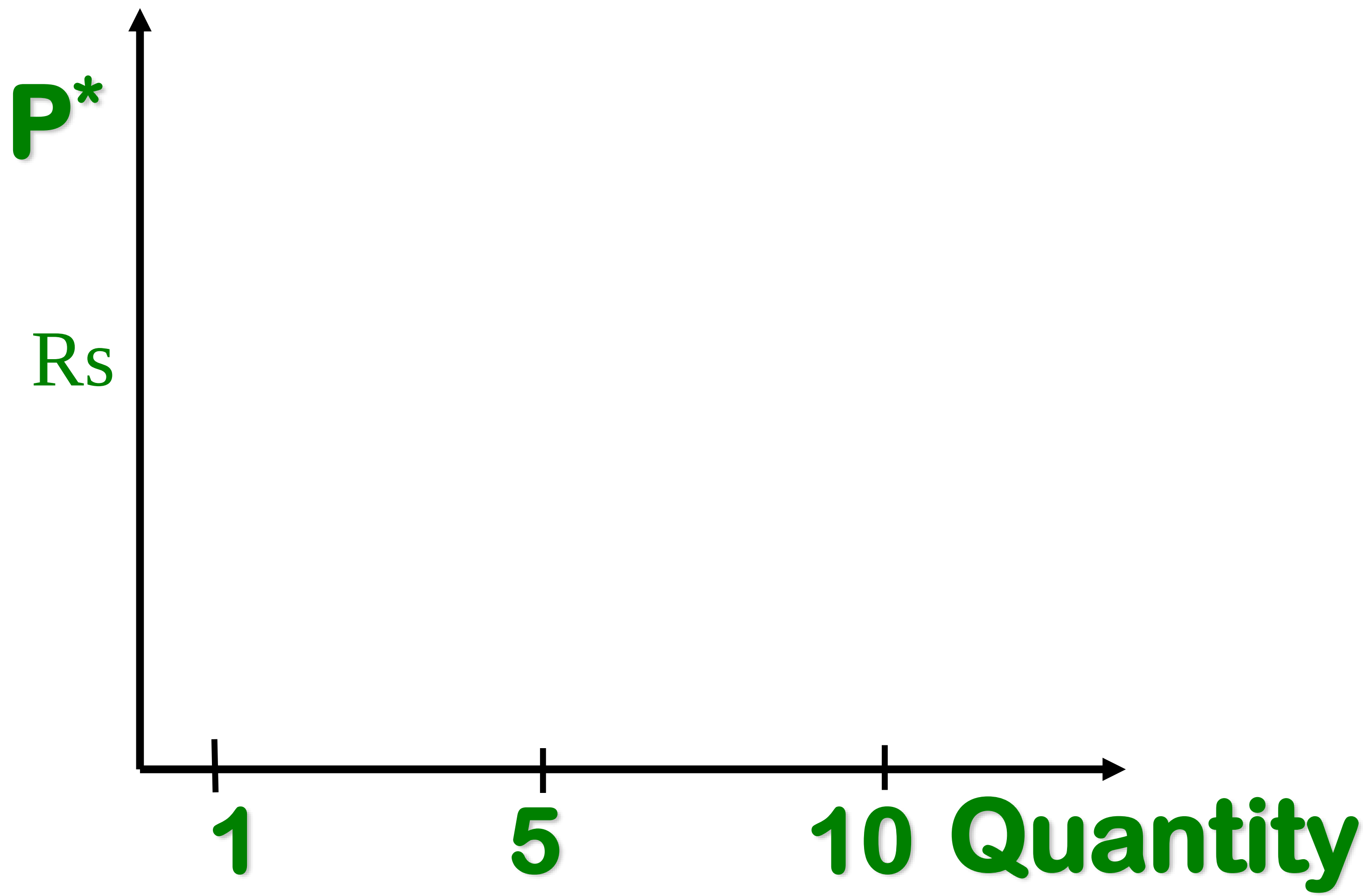
Markets: Part 2

Monopoly,Monopolistic Competition &Oligopoly

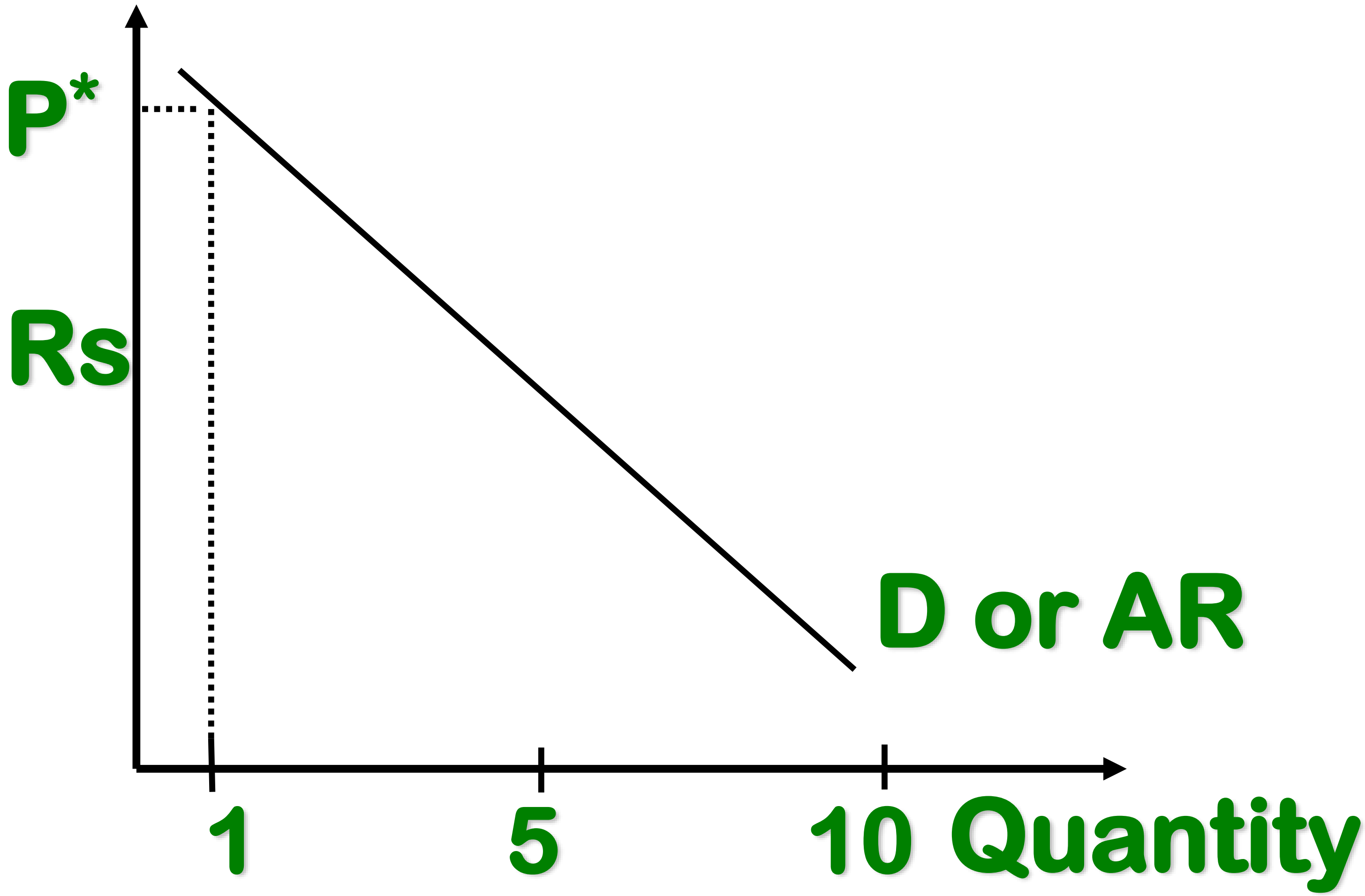
Total, Marginal& Average Revenue

Price	Quantity	Total Revenue	Marginal Revenue	Average Revenue
Rs6	0	0	-	
5	1	5	5	5
4	2	8	3	4
3	3	9	1	3
2	4	8	-1	2
1	5	5	-3	1

Monopolist’s Demand Curve

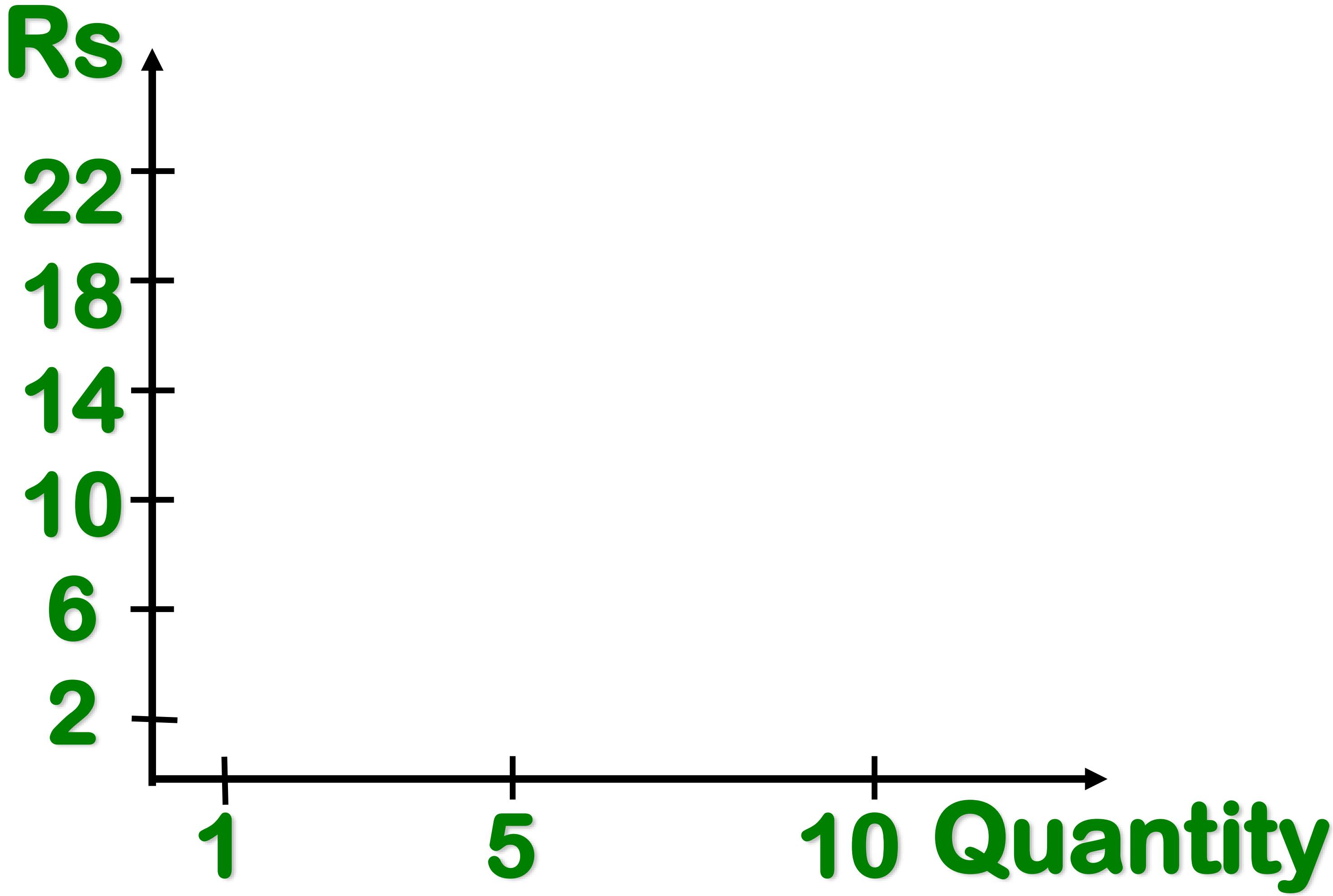


Monopolist's Demand Curve

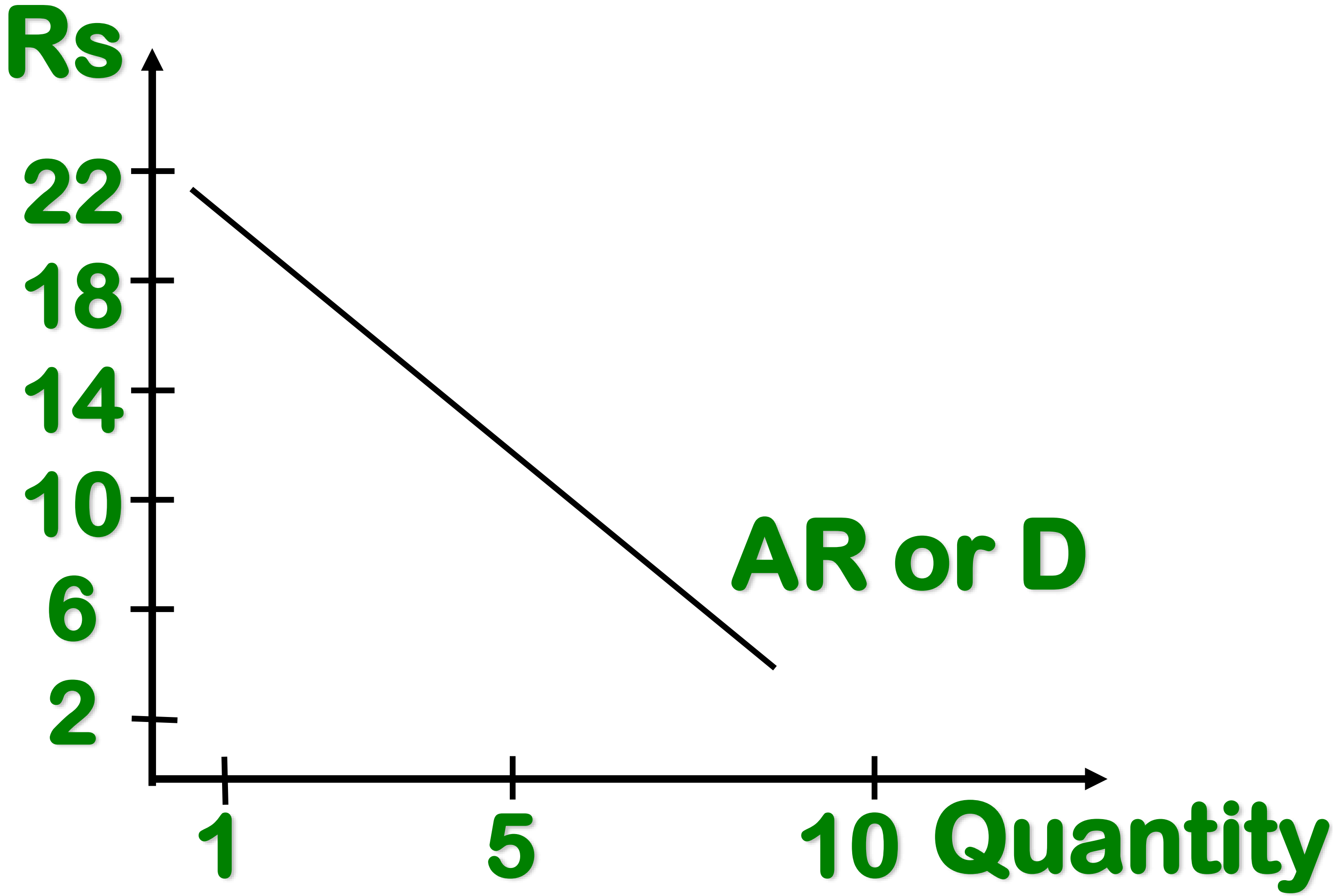


Monopoly Price, Quantity, and Revenue Schedules

Monopoly



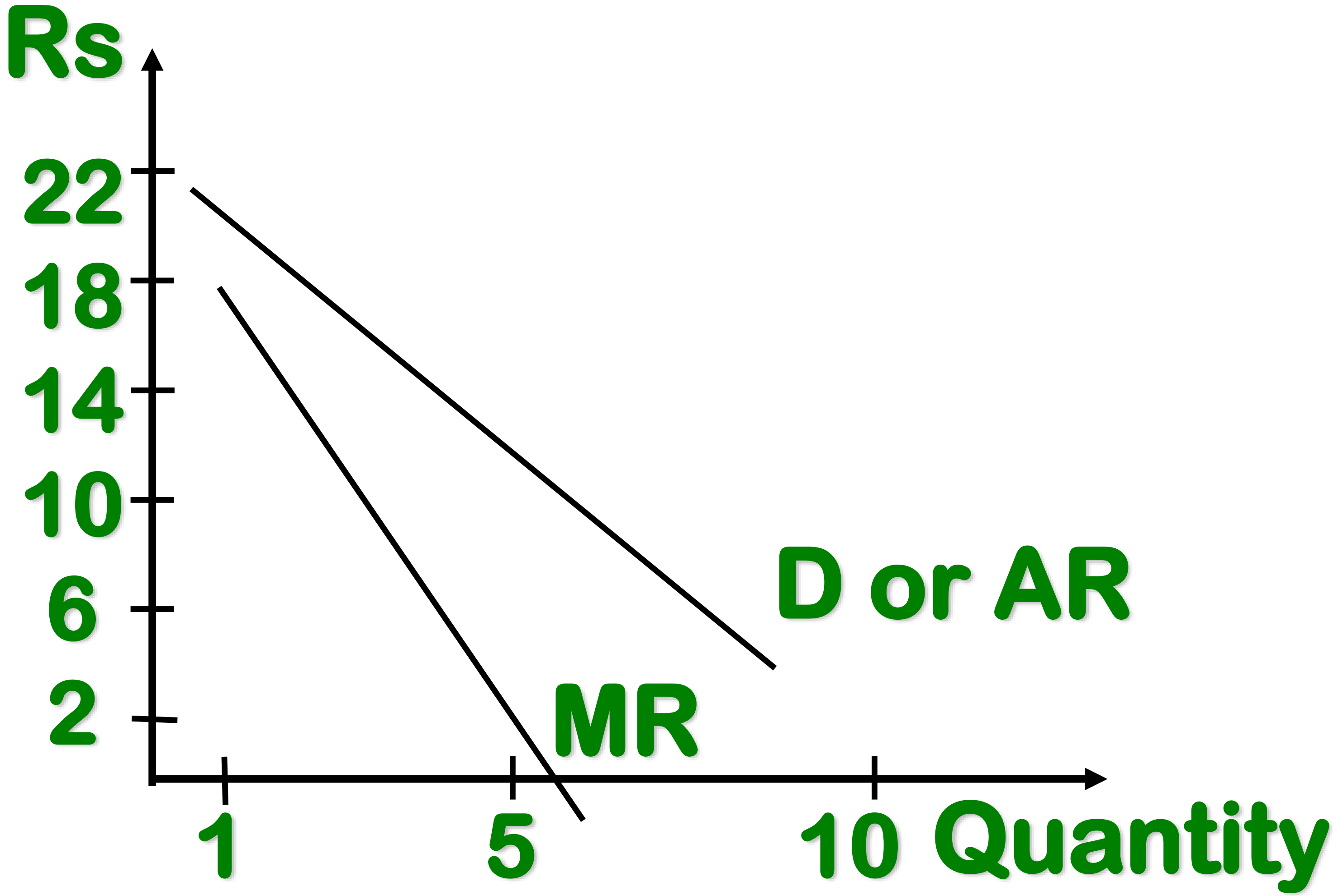
Monopoly



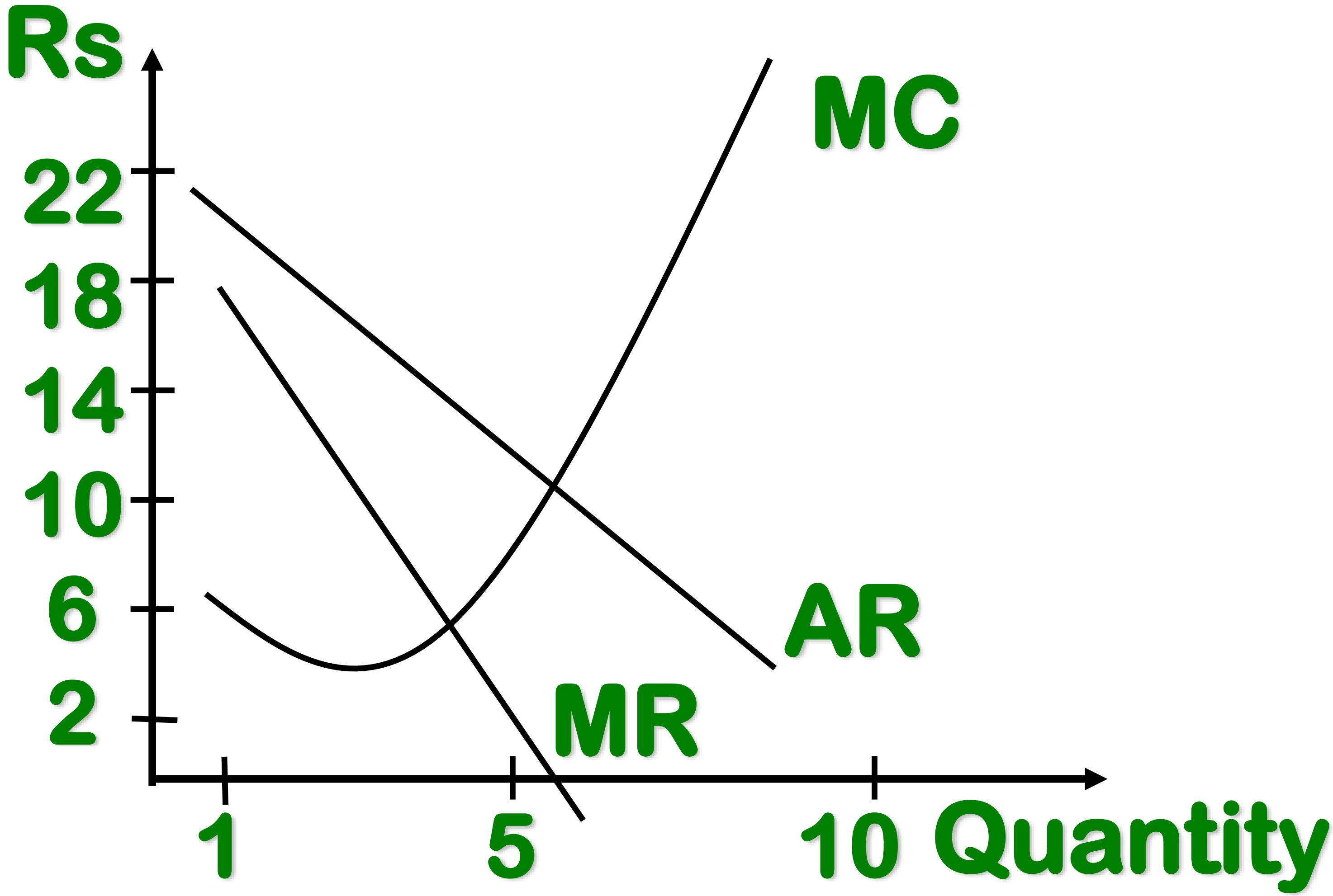
Monopoly

- The monopolist's demand curve
  - downward sloping
    - the greater the market power, the less elastic the demand curve(Average Revenue)
  - *MR* below *AR ((Demand)*
- Equilibrium price and output
  - Equilibrium output, where $MC = MR$
  - Equilibrium price, found from *D* curve
- Profit
  - Measuring profit

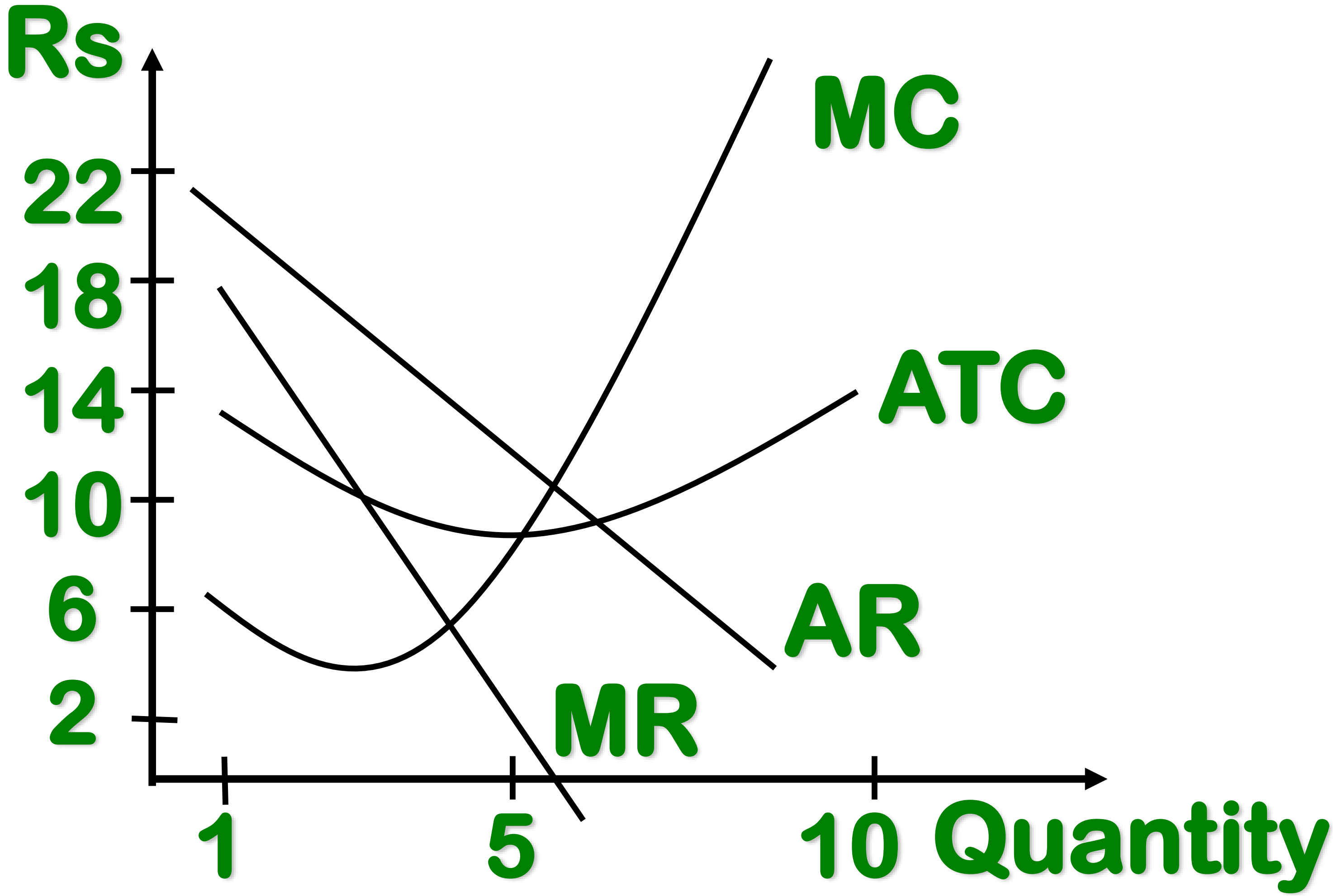
Monopoly



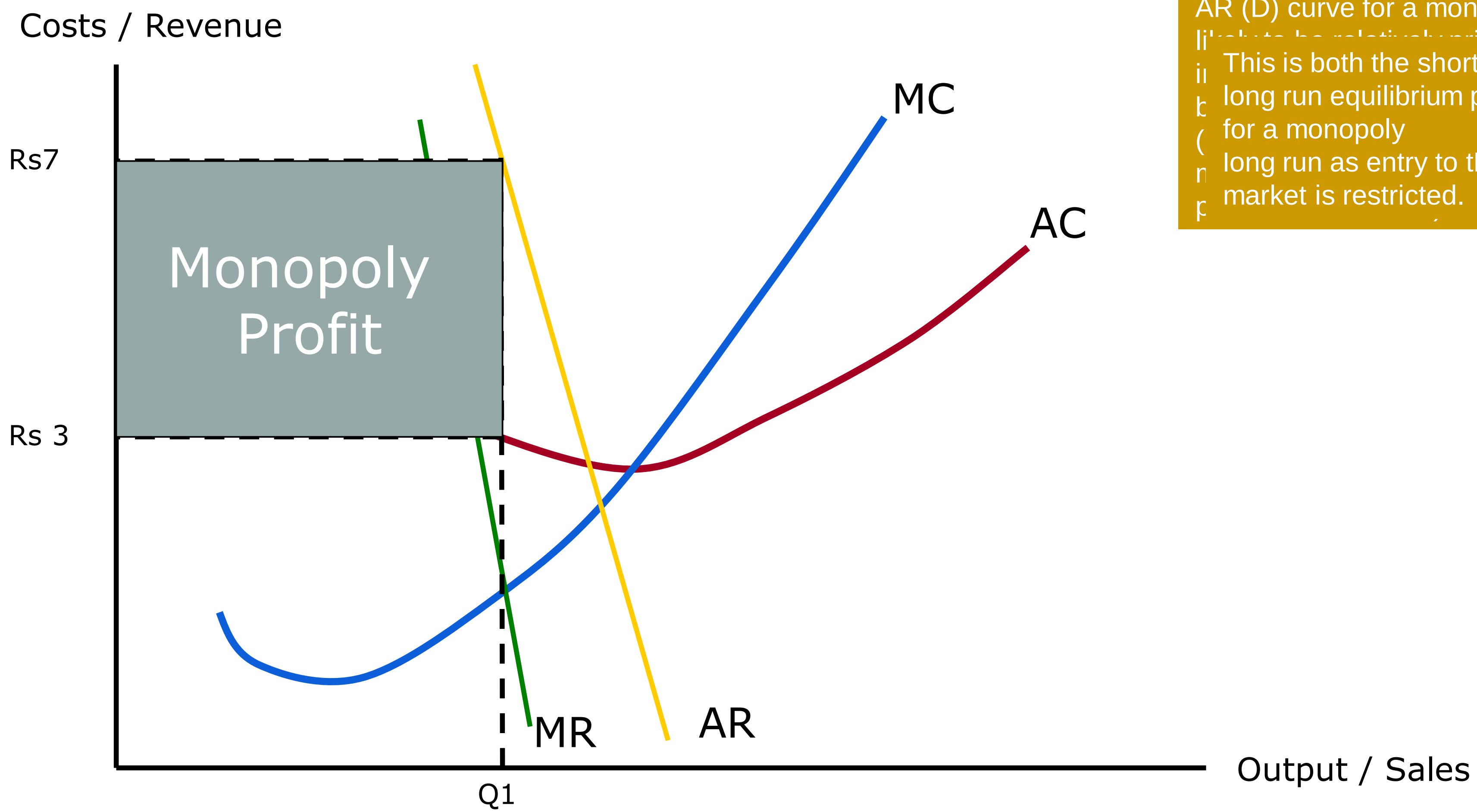
Monopoly



Monopoly



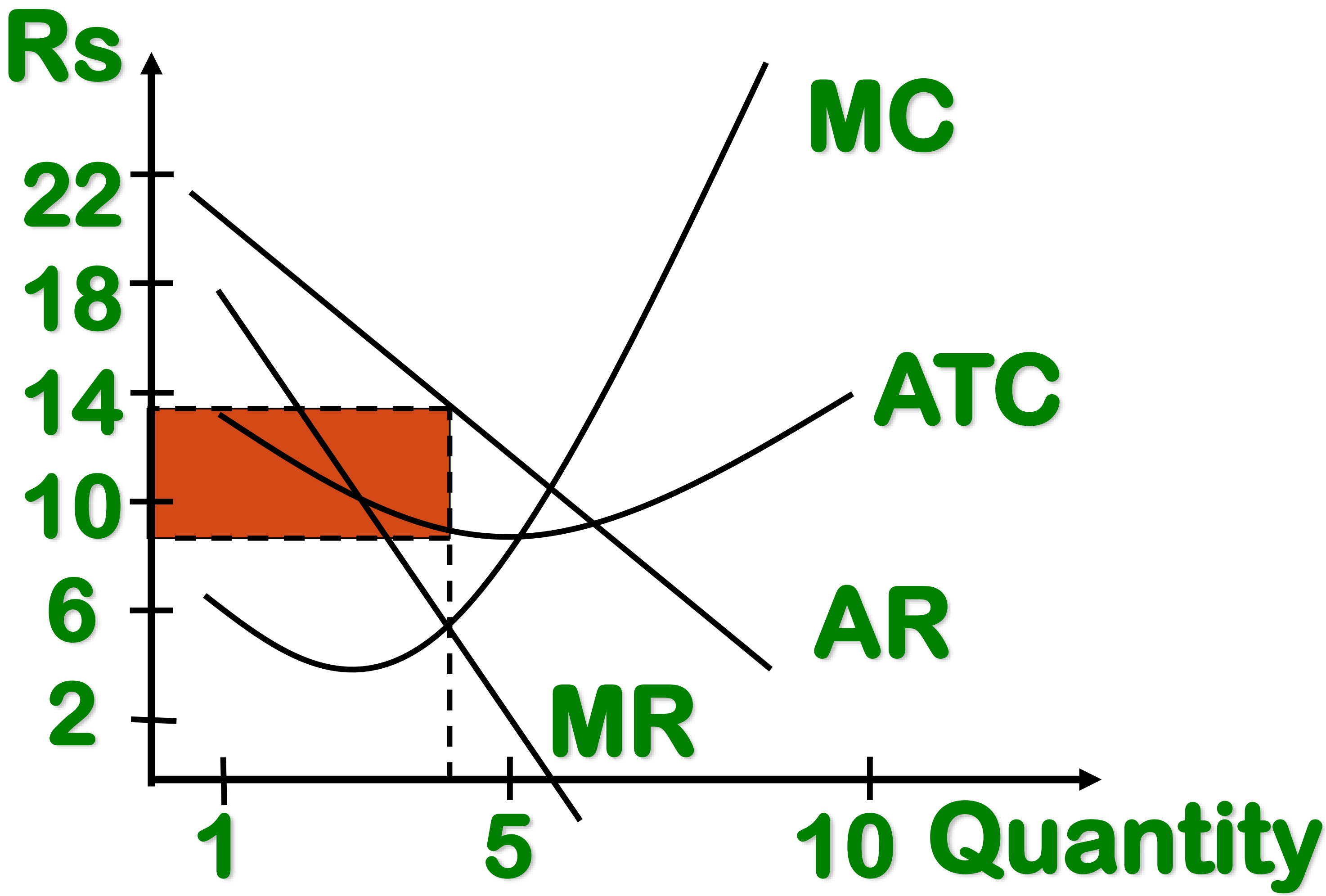
Monopoly



AR (D) curve for a monopolist

This is both the short run and long run equilibrium position for a monopoly long run as entry to the market is restricted.

Monopoly



Monopoly

- Pure monopoly – where only one producer exists in the industry
- In reality, rarely exists – always some form of substitute available!
- Monopoly exists therefore where one firm dominates the market
- Use term 'monopoly power' with care!

Price Discrimination

- Act of charging different prices for the same or slightly differentiated products

Types of price discrimination

- **First-degree**: the firm is aware of each buyer's demand curve
- **Second-degree**: the firm charges a different price, depending on the quantity each buyer purchases
- **Third-degree**: the firm breaks buyers into groups based upon their price elasticity of demand

Price discrimination.

First Degree Price Discrimination
(Perfect Price Discrimination)

- **Each consumer is charged the price he/she is willing to pay.**
- **Producer takes all the consumer surplus**

2nd Degree Price Discrimination
(non-linear pricing)

- Different price is charged for a different quantity bought (but not across consumers).
- set one price for a 1st bundle, a lower price for a 2nd bundle, ...
- extract some, but not all of consumer surplus

Note:

In 1st deg case: different prices charged for different consumers

In 2nd deg case: different prices charged for different quantities (for same consumer)

2nd Degree Price Discrimination (non-linear pricing)

- **Examples:**

Telephone companies charging different prices for different quantities

A single pack of t shirt may cause you 100, but a pack of three would cost you only 175.

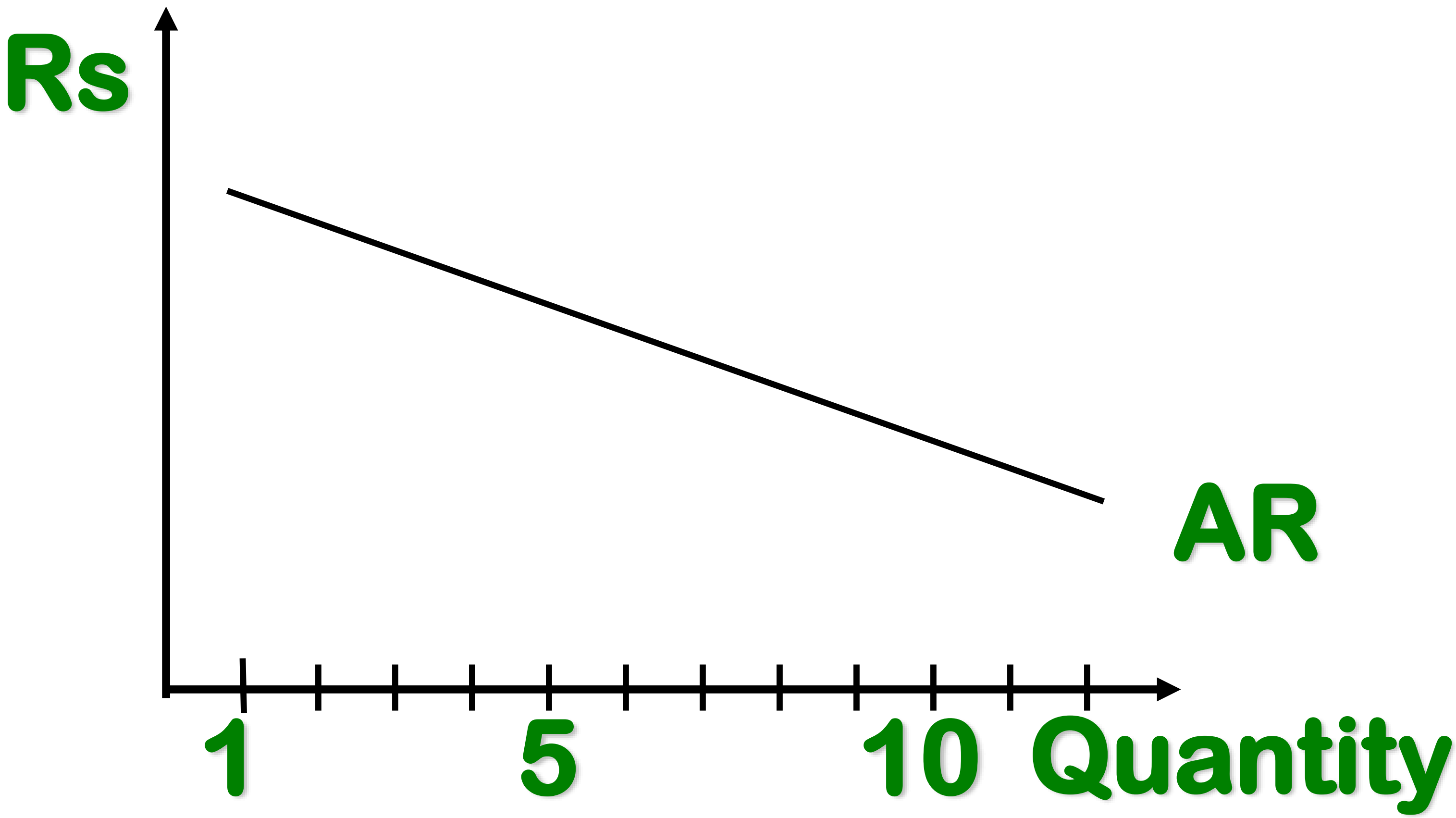
3rd Degree Price Discrimination

- Practice of dividing consumers into two or more groups with separate demand curves and charging different prices to each group
- Eg: regular versus special airline fares, premium versus non premium brands of liquor, canned food or frozen vegetables, discounts to senior citizens & students

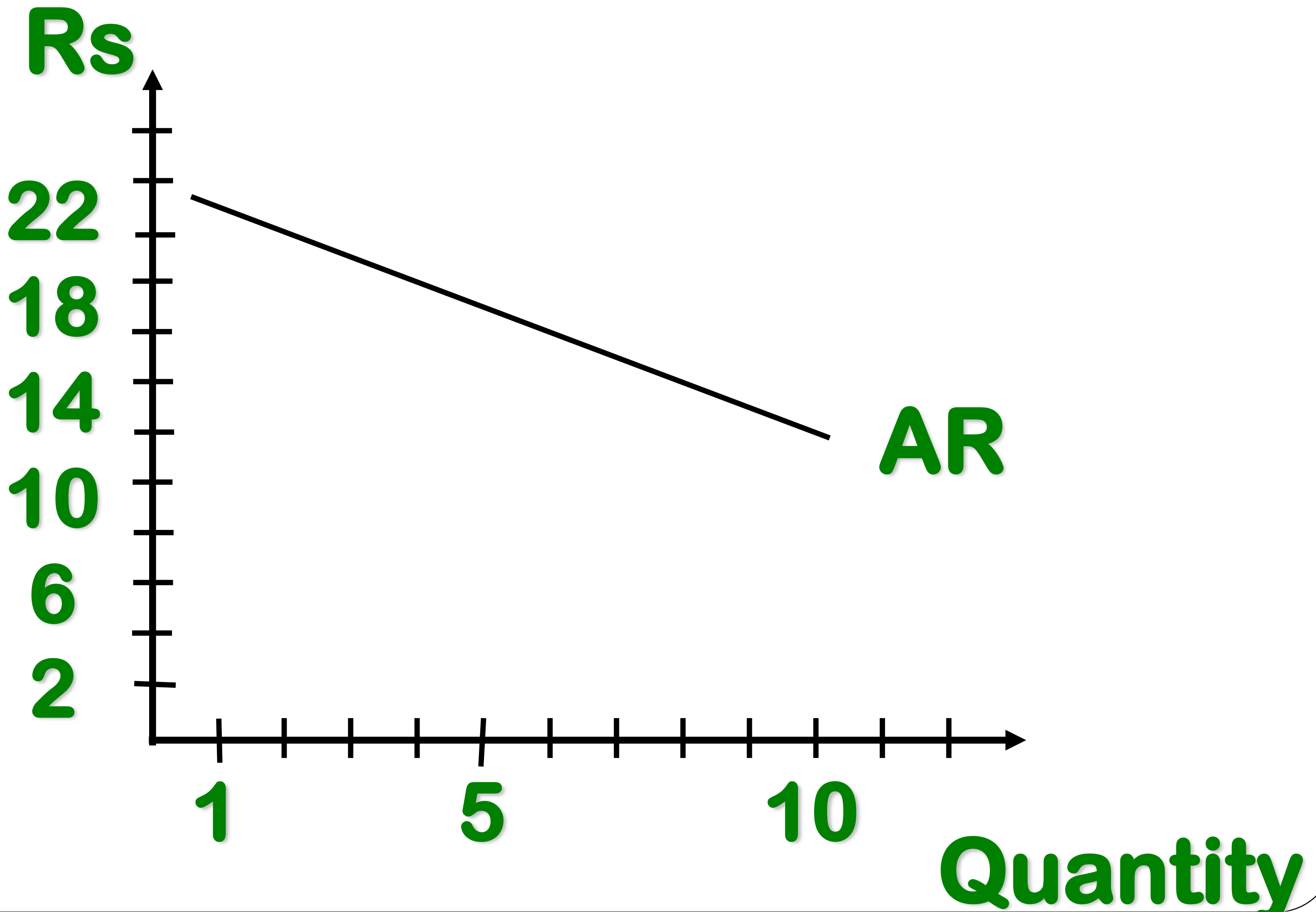
Monopolistic Competition

- Large no: of buyers & sellers
- Differentiated products
- Relevance of Advertisement/selling costs

Monopolistic Competitor Demand Curve



Monopolistically Competitive SR



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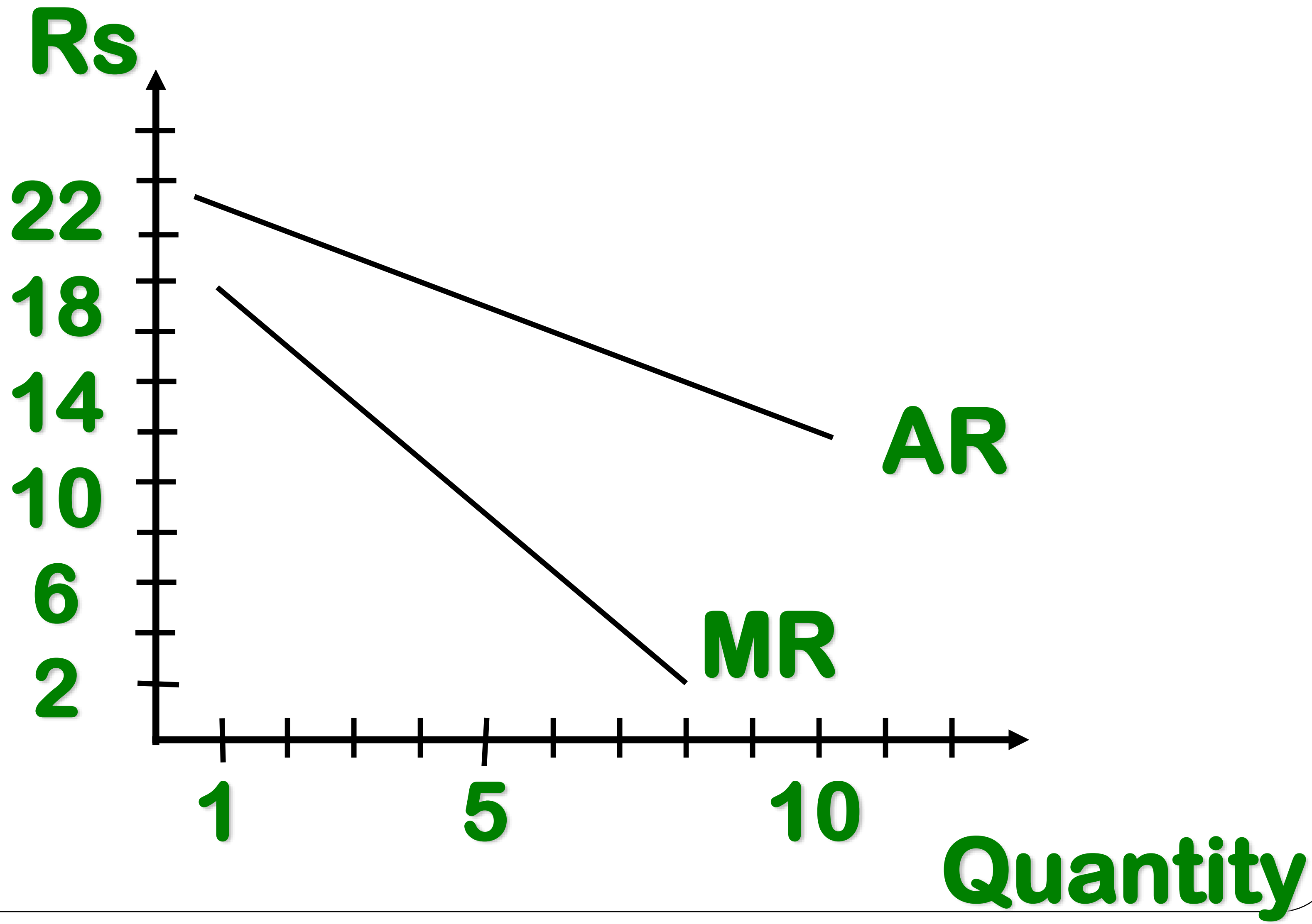

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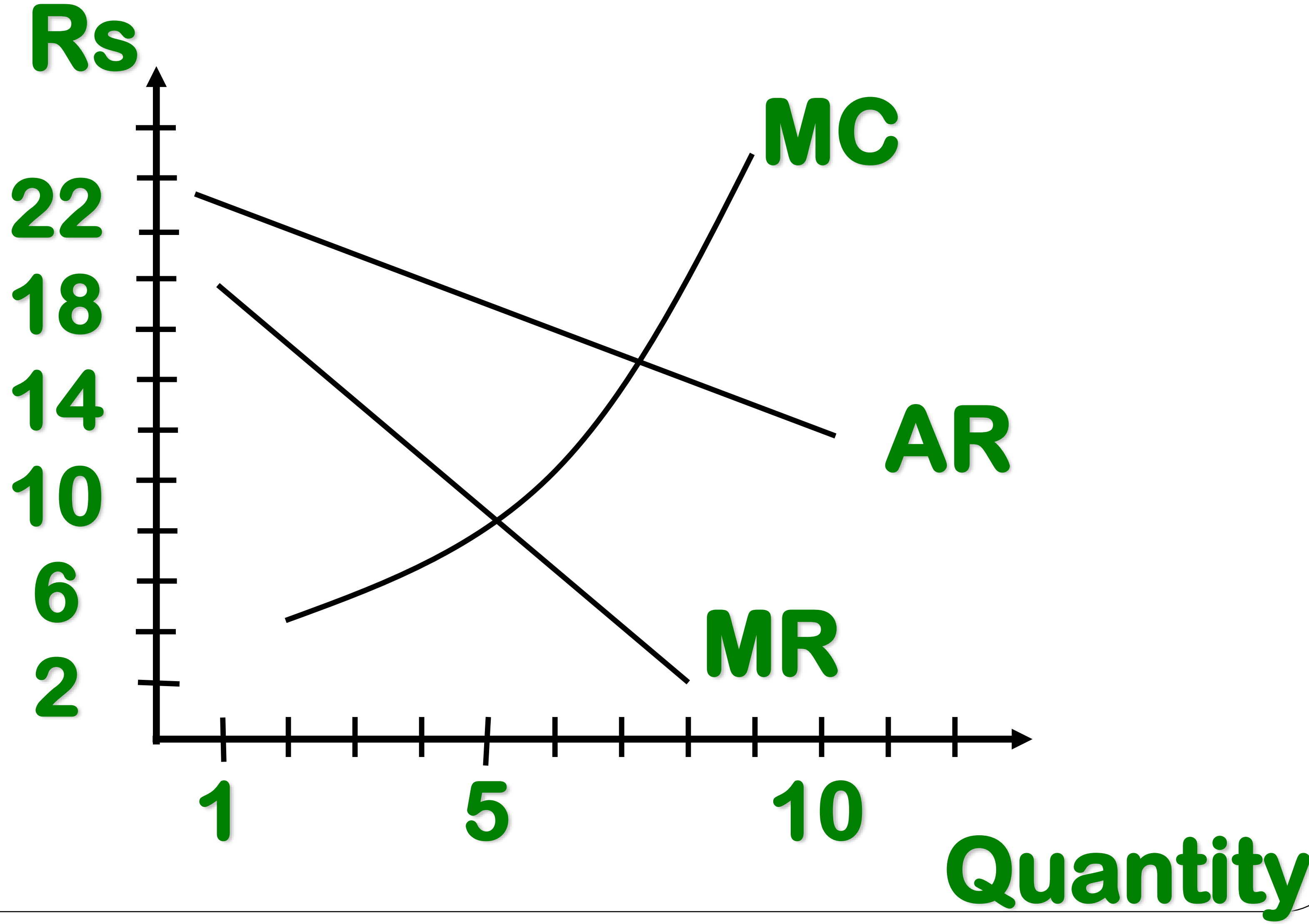

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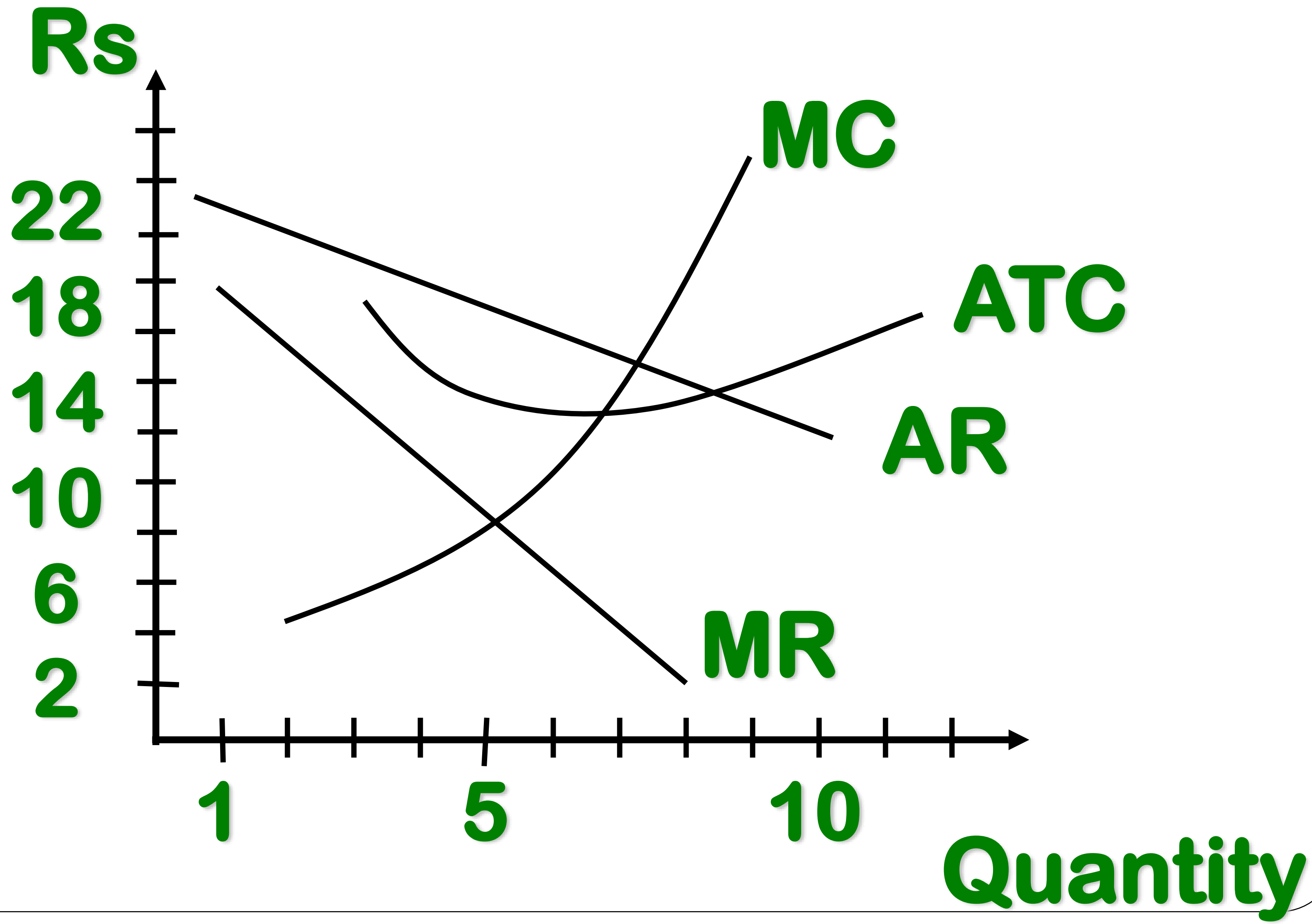

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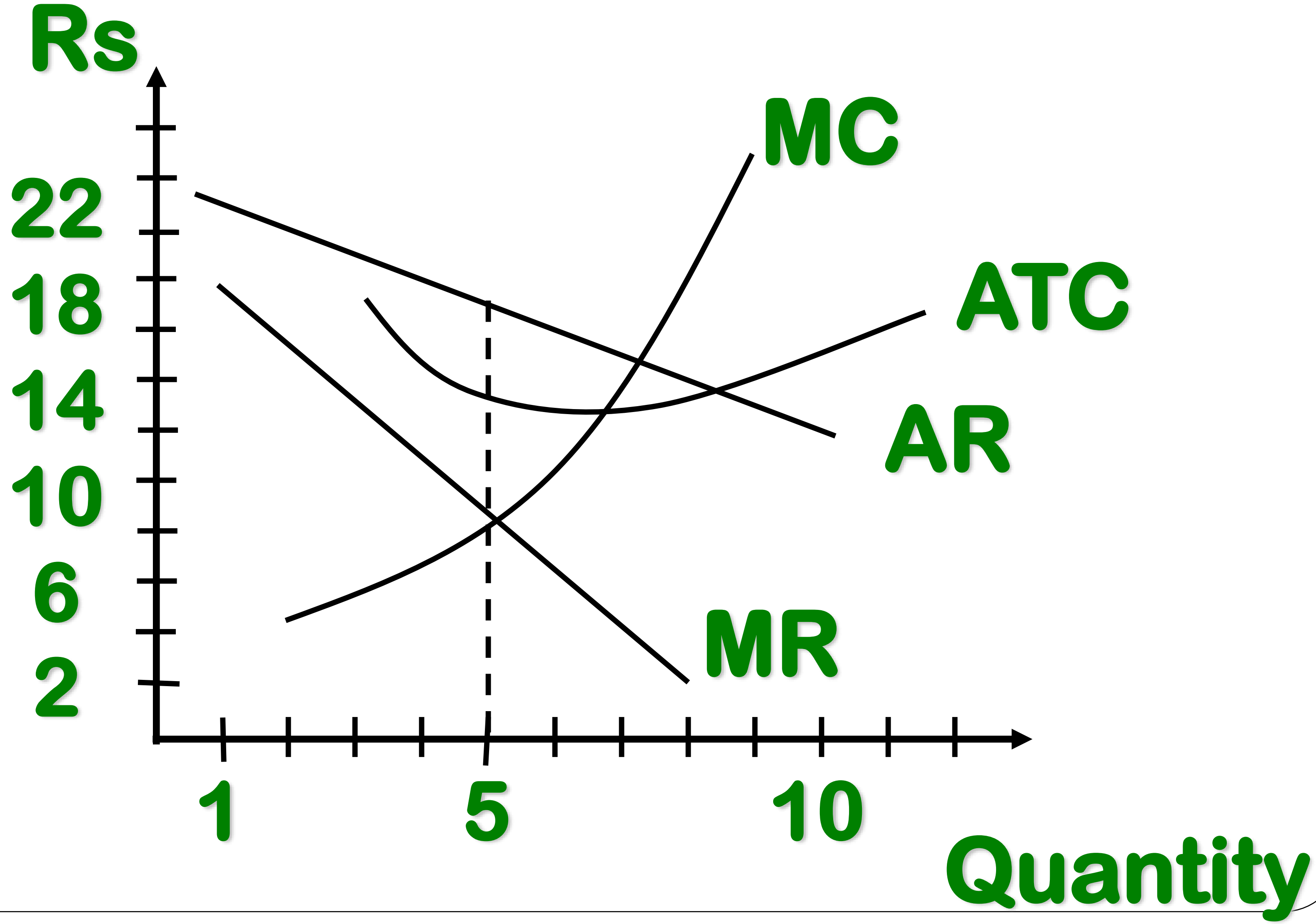

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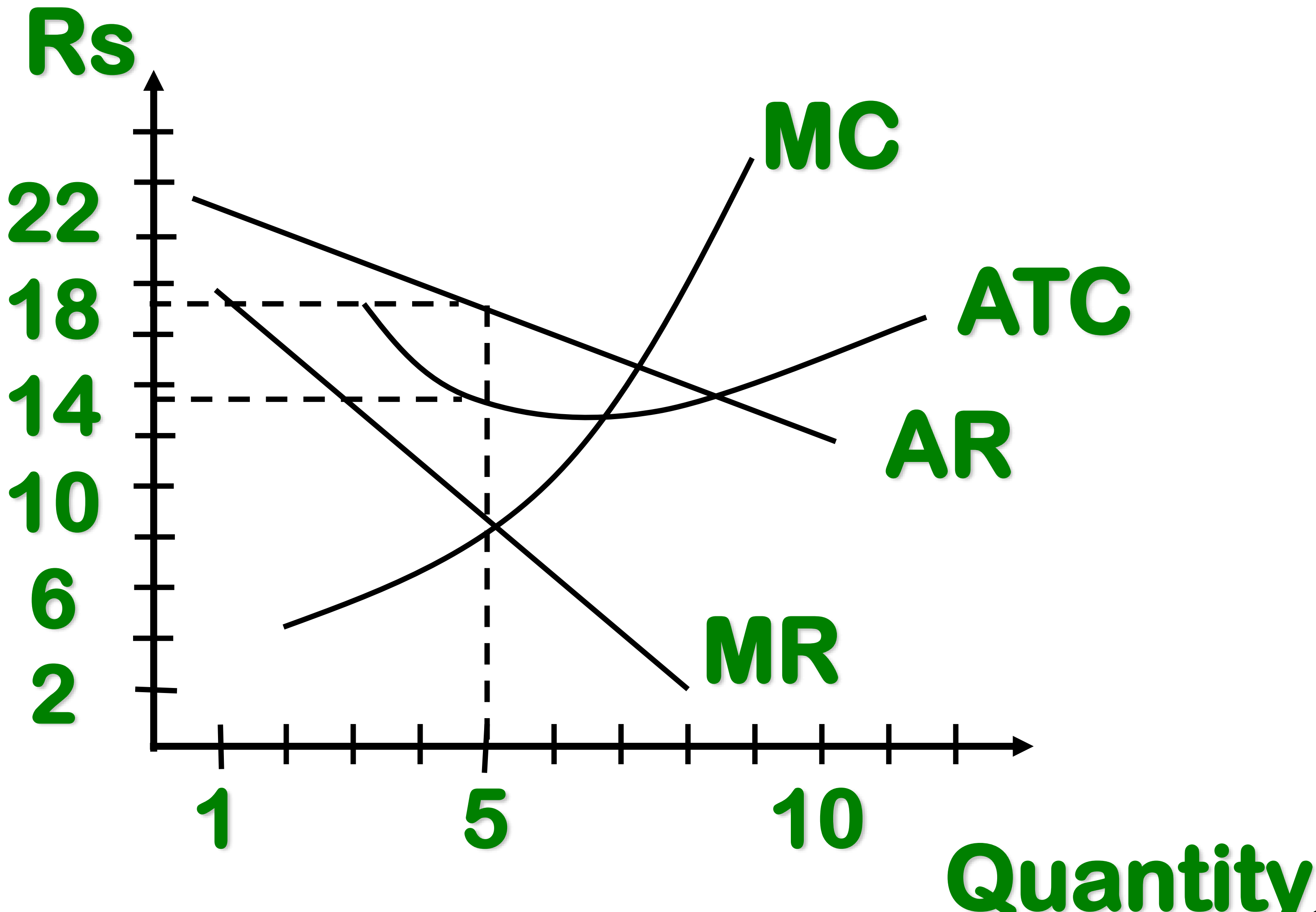

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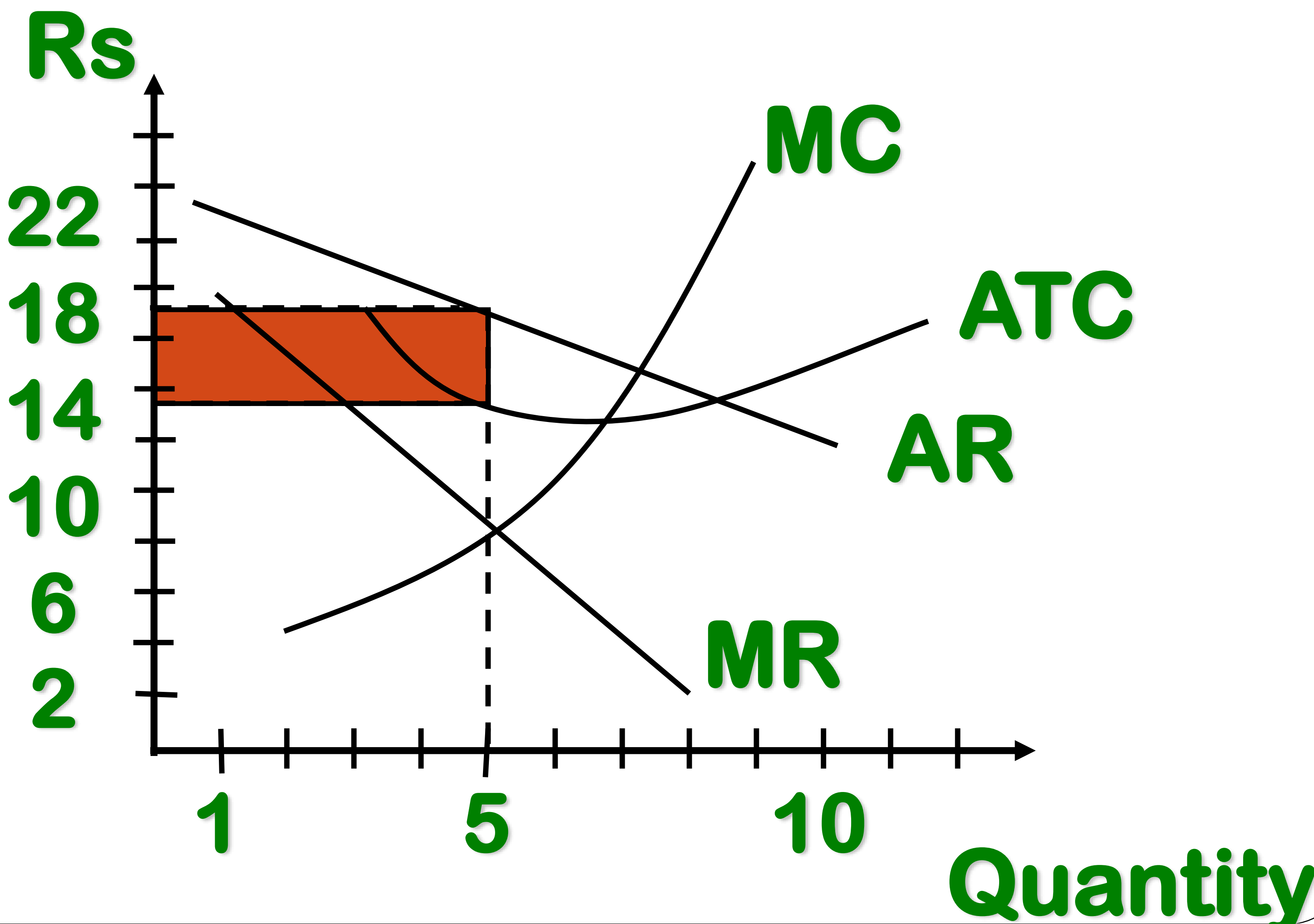
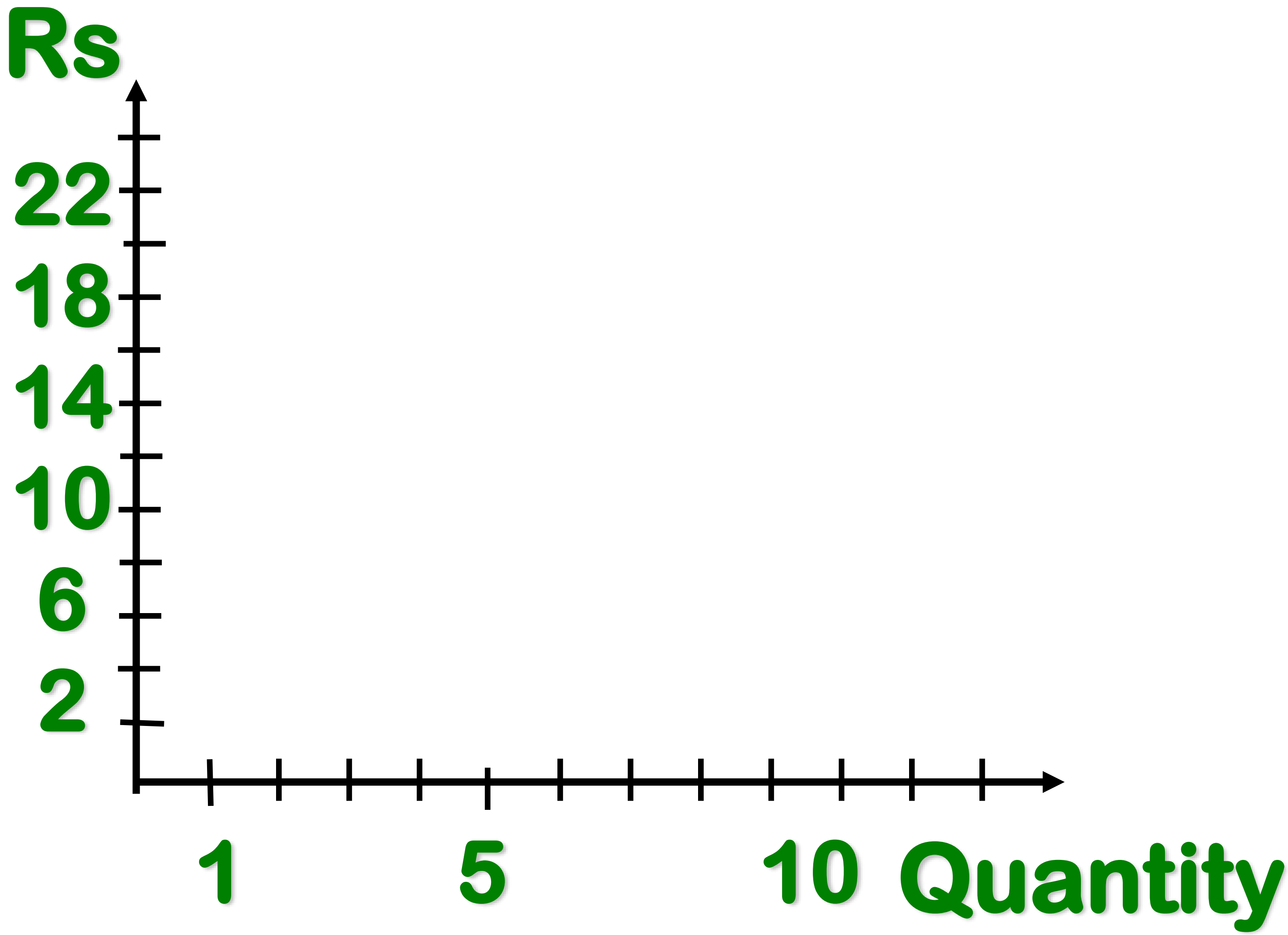


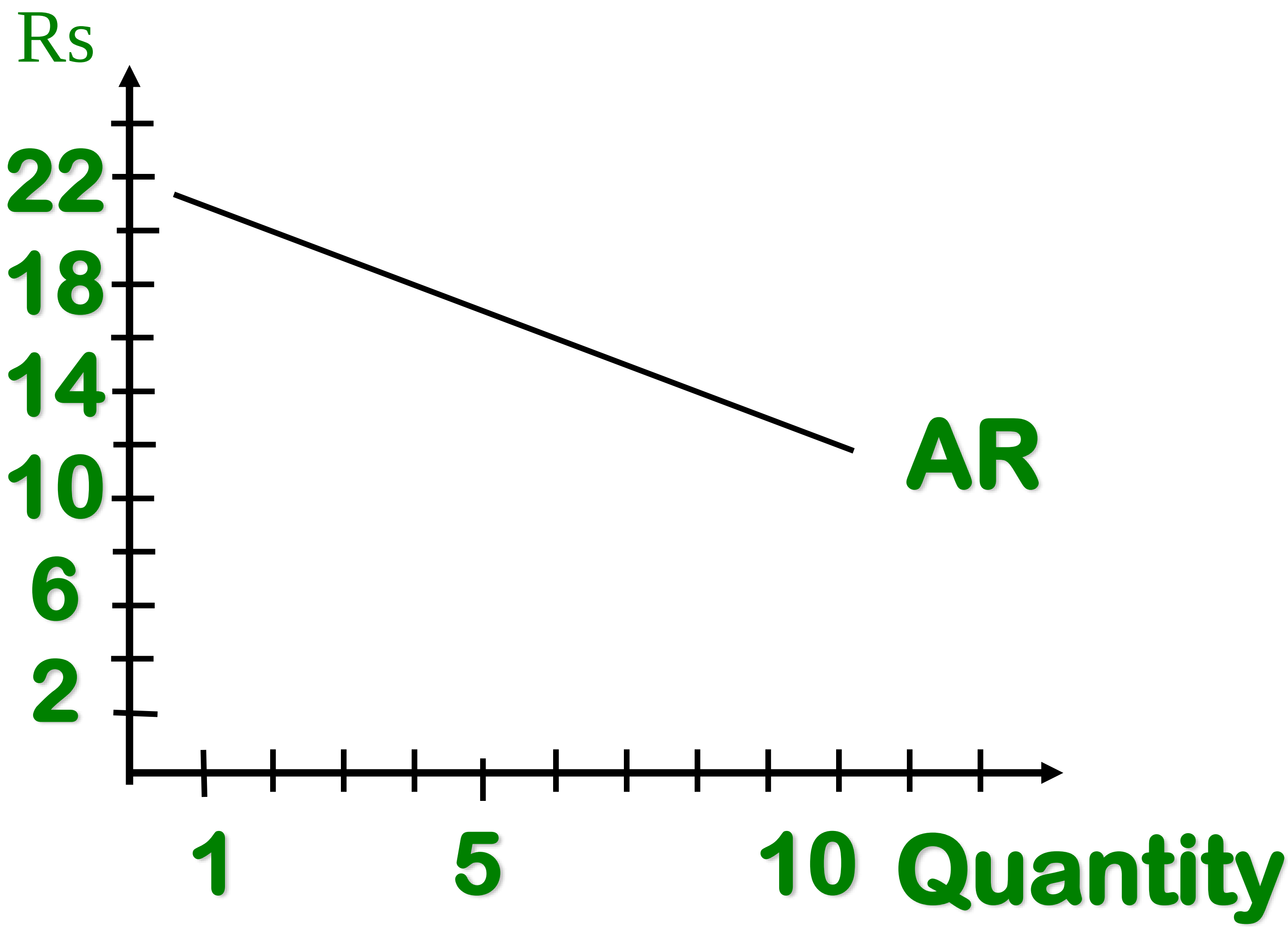
Monopolistically Competitive Firm's Price, Quantity, and Profit

Long Run

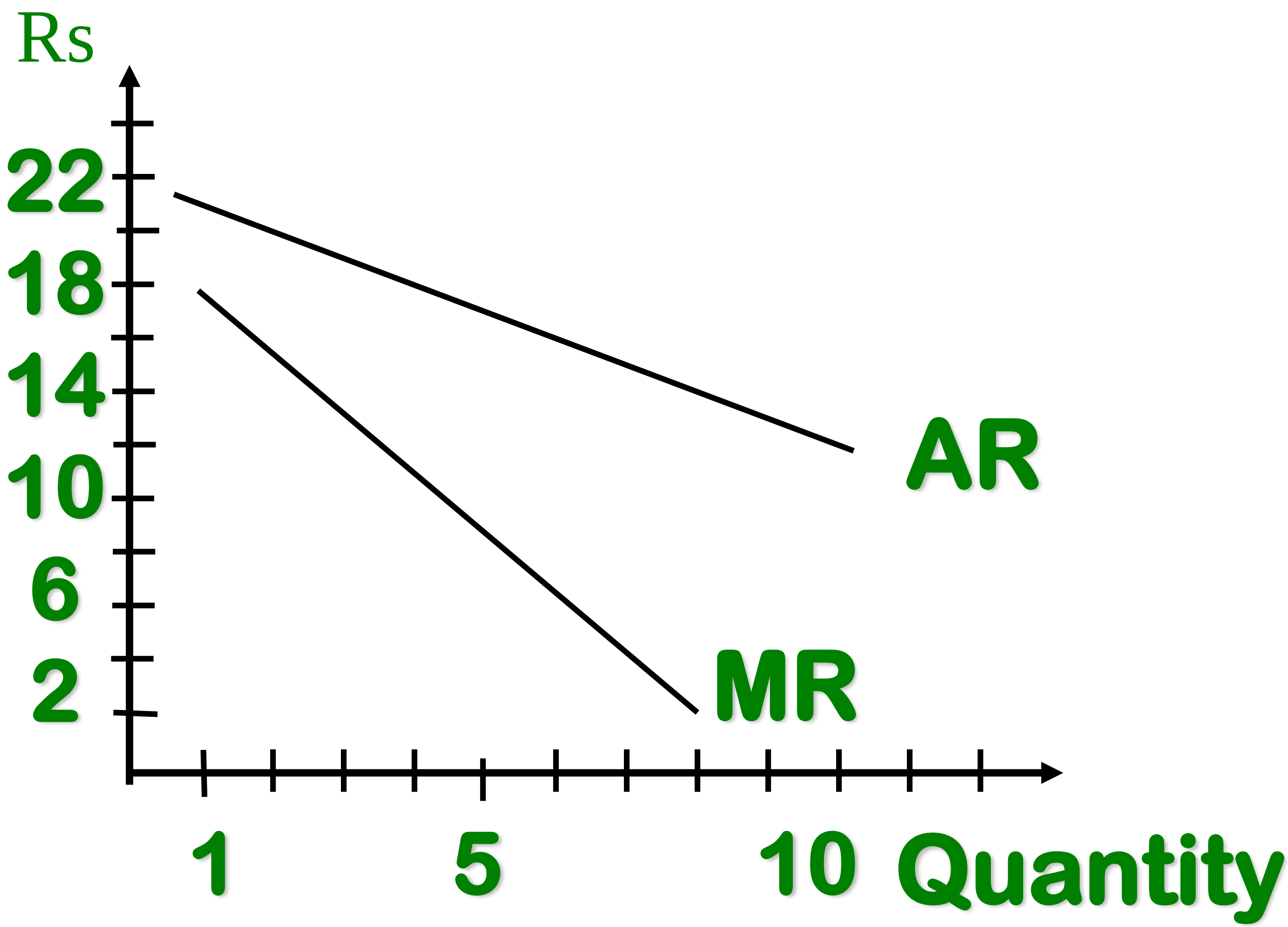
Monopolistically Competitive LR



Monopolistically Competitive LR



Monopolistically Competitive LR



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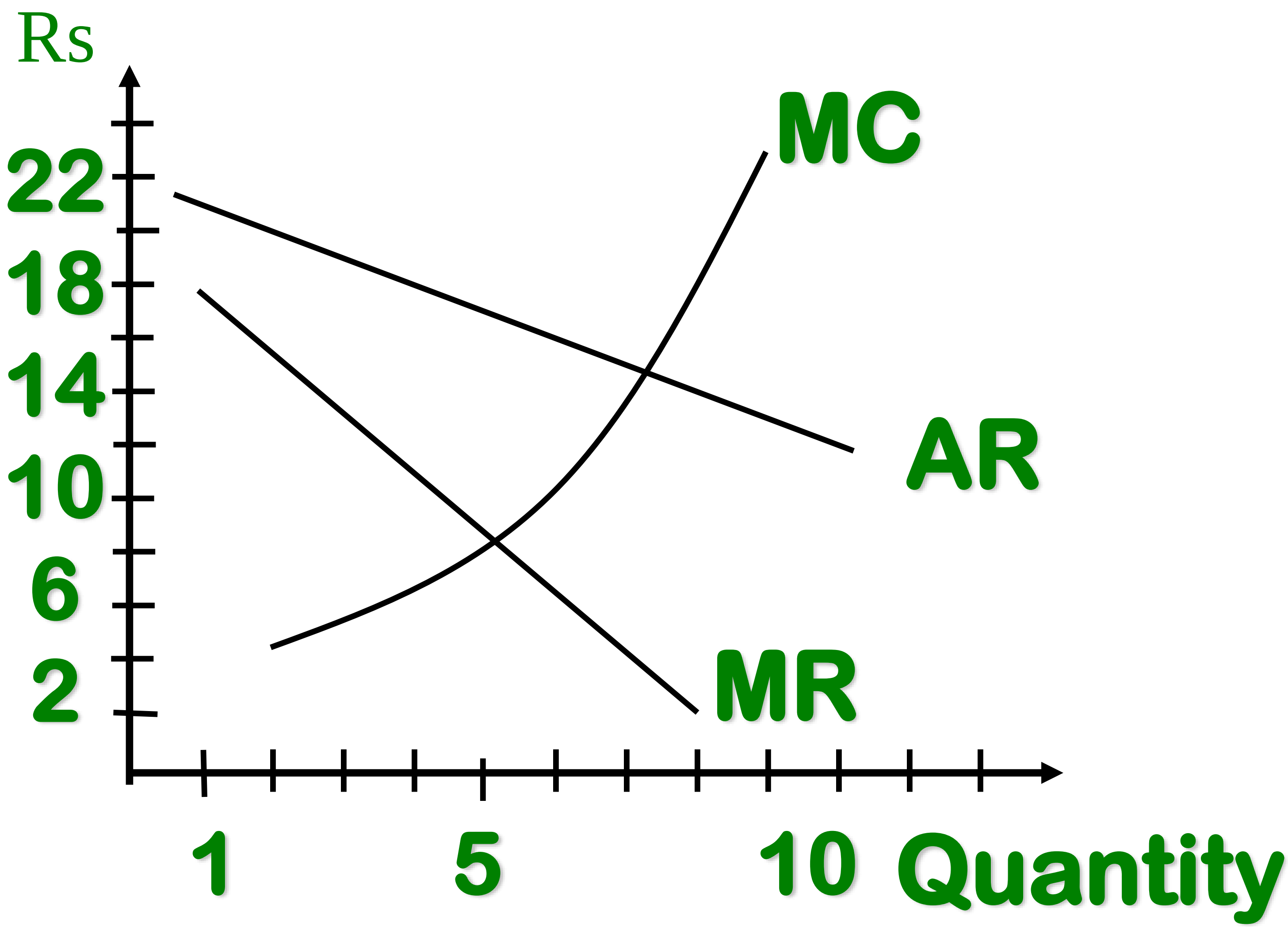

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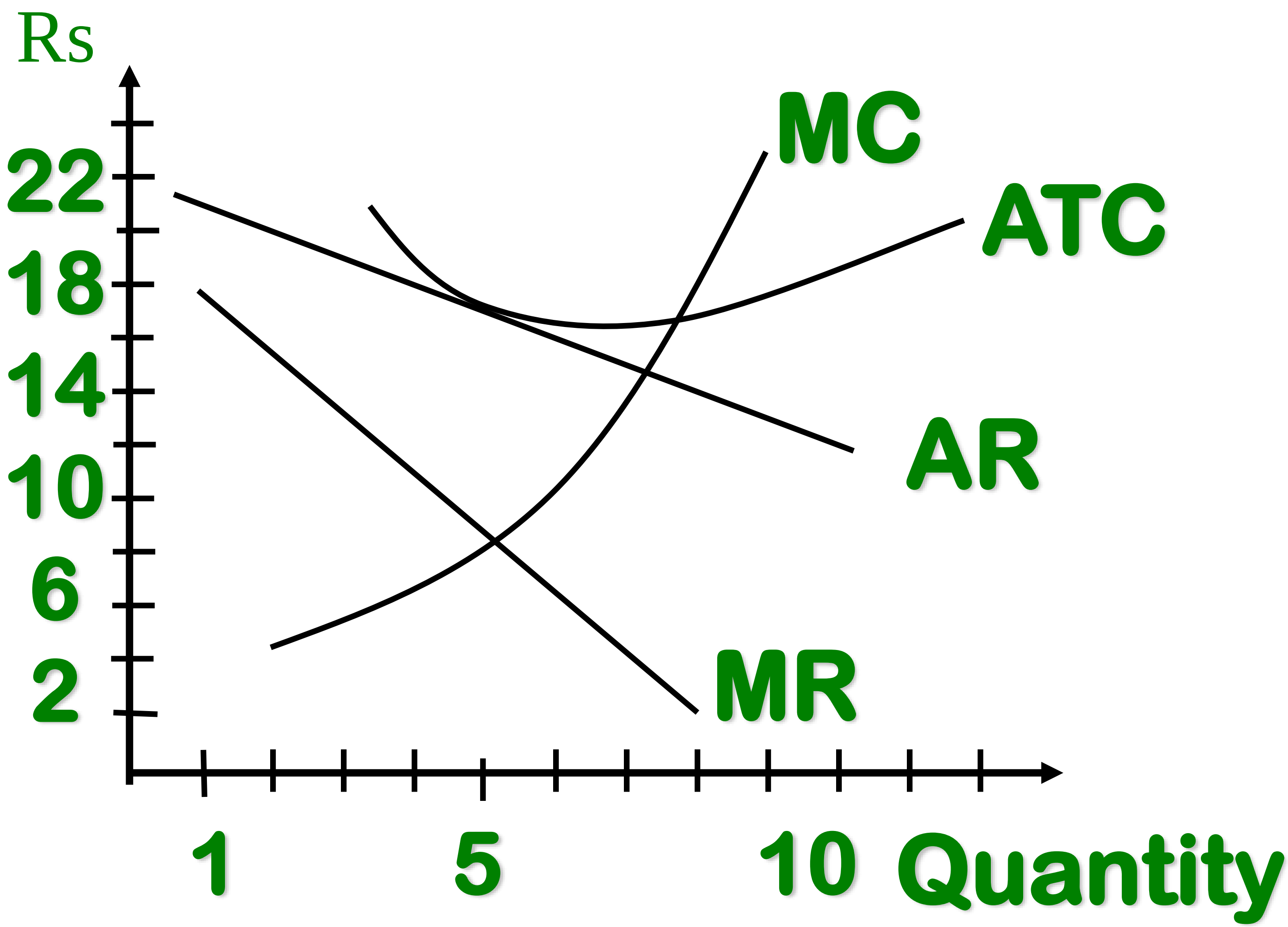

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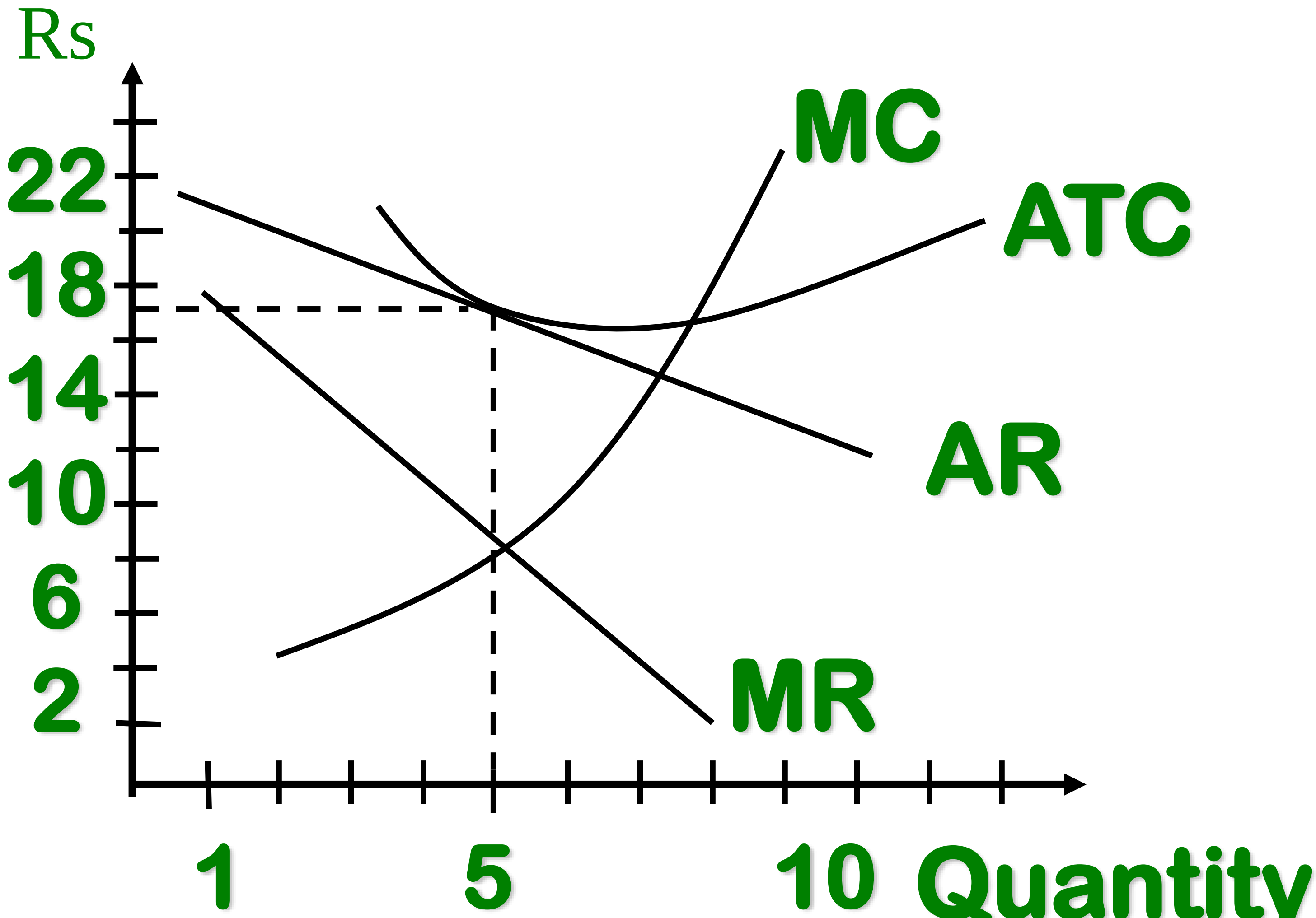


Oligopoly Markets

CHARACTERISTICS OF OLIGOPOLY

- A Few Large Producers
- Homogeneous or Differentiated Products
- Control over Price, but Mutual Interdependence
- Entry Barriers

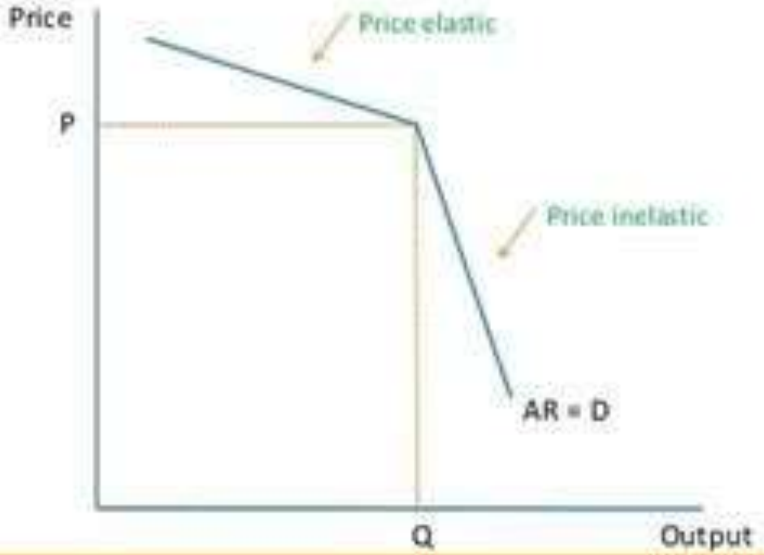
Oligopoly

- Price war
- Price rigidity
- Kinked demand curve
- Price signaling
- Price leadership
- Collusion-Cartels
  - OPEC –oil cartel, CIPEC-copper cartel

Non-Collusive Oligopoly Revenues

Under a non-collusive oligopoly, when a firm raise prices, other players will keep prices constant. Because of this, existing customers will switch to cheaper alternatives. This means a small increase in price will cause a larger fall in quantity demanded.

Hence, upper parts of the demand curve is elastic.



Oligopoly

- Factors favouring collusion
  - Few firms
  - Open with each other
  - Similar production methods and average costs
  - Similar products
  - Dominant firm
  - Significant entry barriers
  - Stable market
  - No government measures to curb collusion

Features of the four market structures

Type of market	Number of firms	Freedom of entry	Nature of product	Examples	Implications for demand curve faced by firm
Perfect competition					
Monopolistic competition					
Oligopoly					
Monopoly					

Features of the four market structures

Type of market	Number of firms	Freedom of entry	Nature of product	Examples	Implications for demand curve faced by firm
Perfect competition	Very many				
Monopolistic competition	Many / several				
Oligopoly	Few				
Monopoly	One				

Features of the four market structures

Type of market	Number of firms	Freedom of entry	Nature of product	Examples	Implications for demand curve faced by firm
Perfect competition	Very many	Unrestricted			
Monopolistic competition	Many / several	Unrestricted			
Oligopoly	Few	Restricted			
Monopoly	One	Restricted or completely blocked			

Features of the four market structures

Type of market	Number of firms	Freedom of entry	Nature of product	Examples	Implications for demand curve faced by firm
Perfect competition	Very many	Unrestricted	Homogeneous (undifferentiated)		
Monopolistic competition	Many / several	Unrestricted	Differentiated		
Oligopoly	Few	Restricted	Undifferentiated or differentiated		
Monopoly	One	Restricted or completely blocked	Unique		

Features of the four market structures

Type of market	Number of firms	Freedom of entry	Nature of product	Examples	Implications for demand curve faced by firm
Perfect competition	Very many	Unrestricted	Homogeneous (undifferentiated)	Vegetables& other farm products (approximately)	
Monopolistic competition	Many / several	Unrestricted	Differentiated	Builders, restaurants	
Oligopoly	Few	Restricted	Undifferentiated or differentiated	Cement cars, electrical appliances	
Monopoly	One	Restricted or completely blocked	Unique	train operators, public utilities	

Features of the four market structures

Type of market	Number of firms	Freedom of entry	Nature of product	Examples	Implications for demand curve faced by firm
Perfect competition	Very many	Unrestricted	Homogeneous (undifferentiated)	Farm Outputs (approximately)	Horizontal: firm is a price taker
Monopolistic competition	Many / several	Unrestricted	Differentiated	Builders, restaurants	Downward sloping, but relatively elastic
Oligopoly	Few	Restricted	Undifferentiated or differentiated	Cement cars, Telecom, Oil producers	Downward sloping. Relatively inelastic (shape depends on reactions of rivals)
Monopoly	One	Restricted or completely blocked	Unique	Electricity, Water, train operators	Downward sloping: more inelastic than oligopoly. Firm has considerable control over price