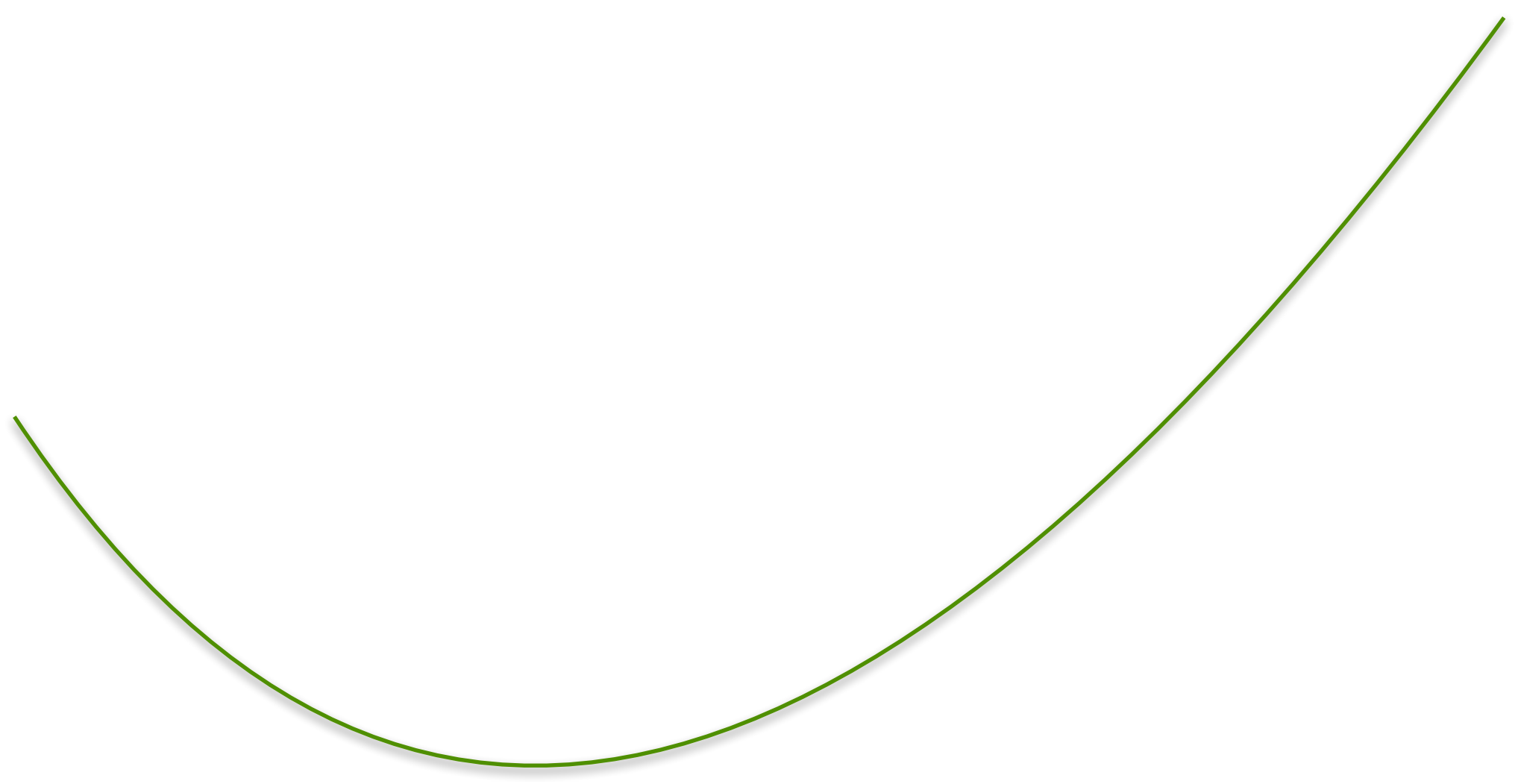




MC

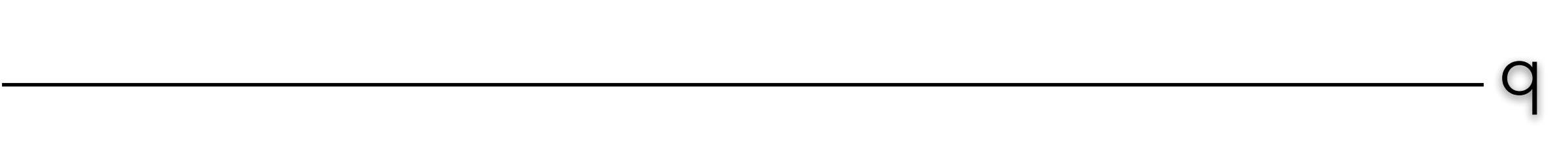


MR



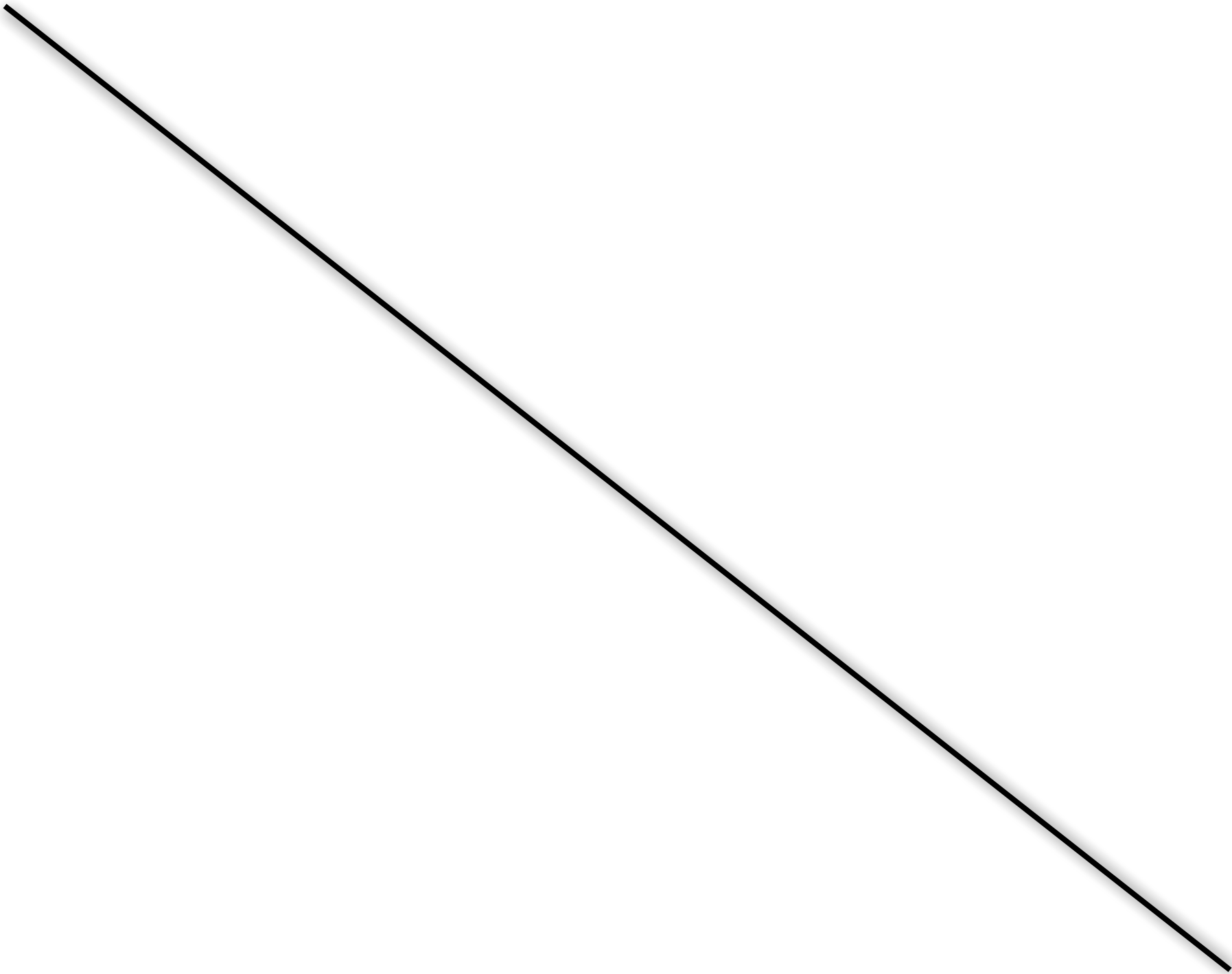


P, MC, ATC, MR



To Maximize  
Profit, the  
Monopolist  
produce  $Q_0$





**D**

P

0



The monopolist  
charge  $P_0$

ATC



1

2

3

4

5

6

7

8

9

0

1

2

3

4

5

6

7

# Profit

A yellow speech bubble with a black outline and a drop shadow, pointing towards the bottom-left. It contains the text "Supernormal profit in a Non-Contestable Monopoly".

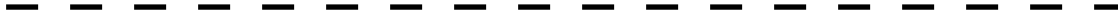
Supernormal profit in  
a Non-Contestable  
Monopoly



ATC



$P_1 = ATC$



A pink speech bubble with a thin pink outline and a drop shadow, pointing towards the top-left corner. It contains the text "the Monopolist produce Q\_0".

the Monopolist  
produce  $Q_0$

The monopolist  
charge  $P_1 = ATC$

1

1

1

1

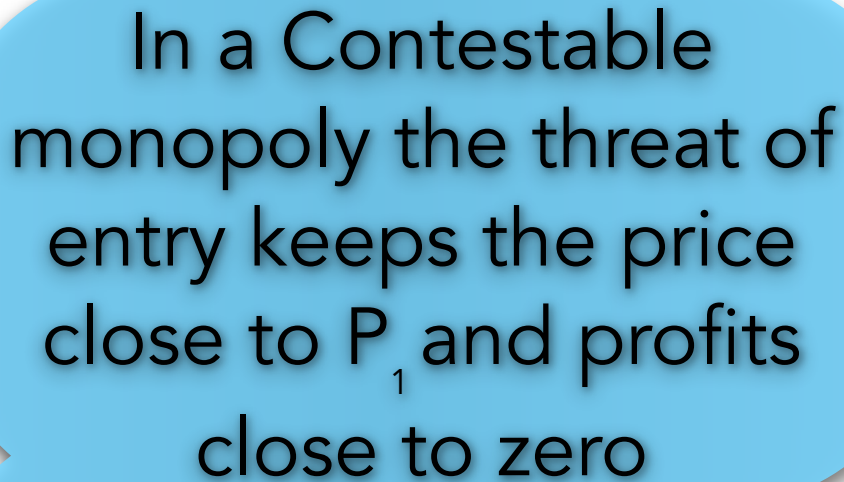
1

1

Q

1





In a Contestable  
monopoly the threat of  
entry keeps the price  
close to  $P_1$  and profits  
close to zero







n



a





n







**S**



a

**b**



e

**M**



a





e













mm

**S**



n



h

e





n

d

u

**S**





**Y**



**m**

u

**S**





h

a





g



P







e

[REDACTED]

[REDACTED]



A

**T**







**p**



e





n



n



**Y**

**M**









**p**







e

**S**







**S**



**b**

e



a



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**S**





**Y**



S





e

S













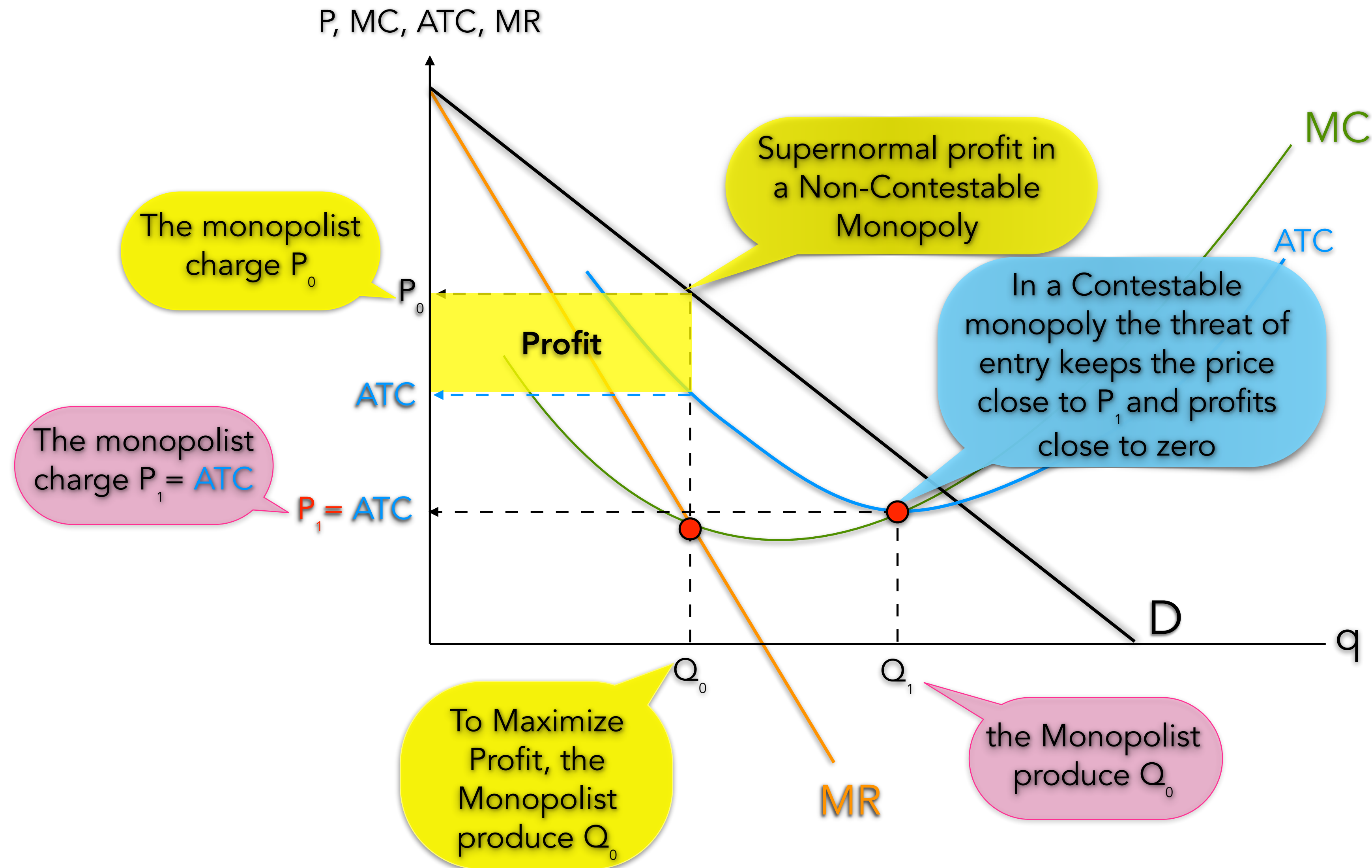
d



Monopolies exist because entry into the industry is restricted

In a Contestable Market, firms in the industry must  
charge  $\text{Price} = \text{ATC}$  to prevent entry

In a Contestable Market, firms in the industry must charge **Price = ATC** to prevent entry



# Comparing the Contestable Market and Cartel Models