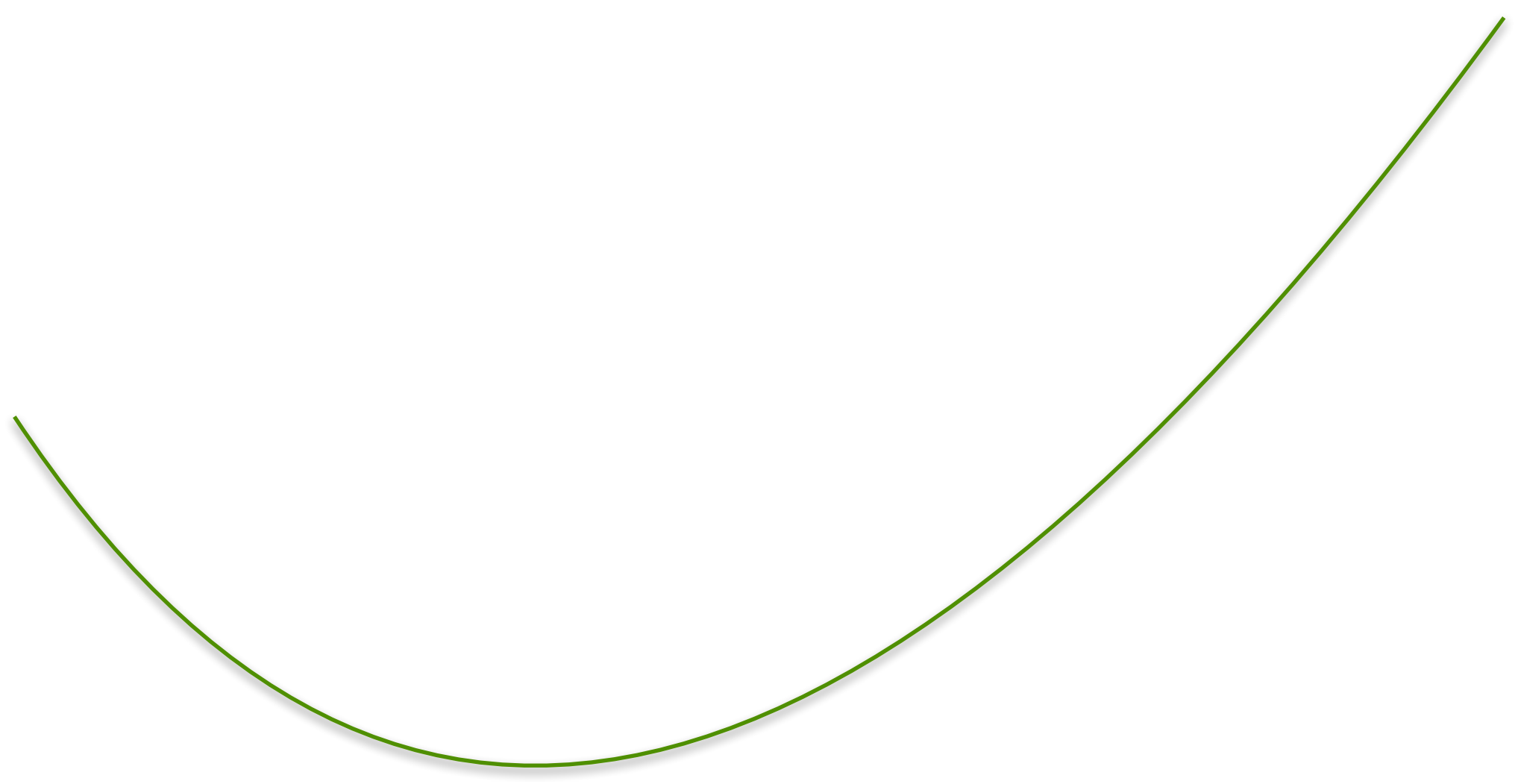


MC

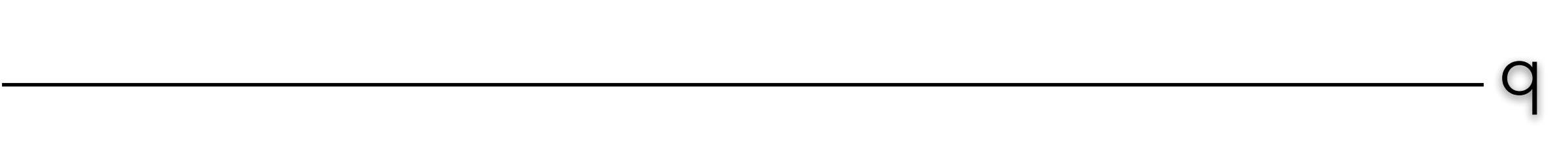


MR

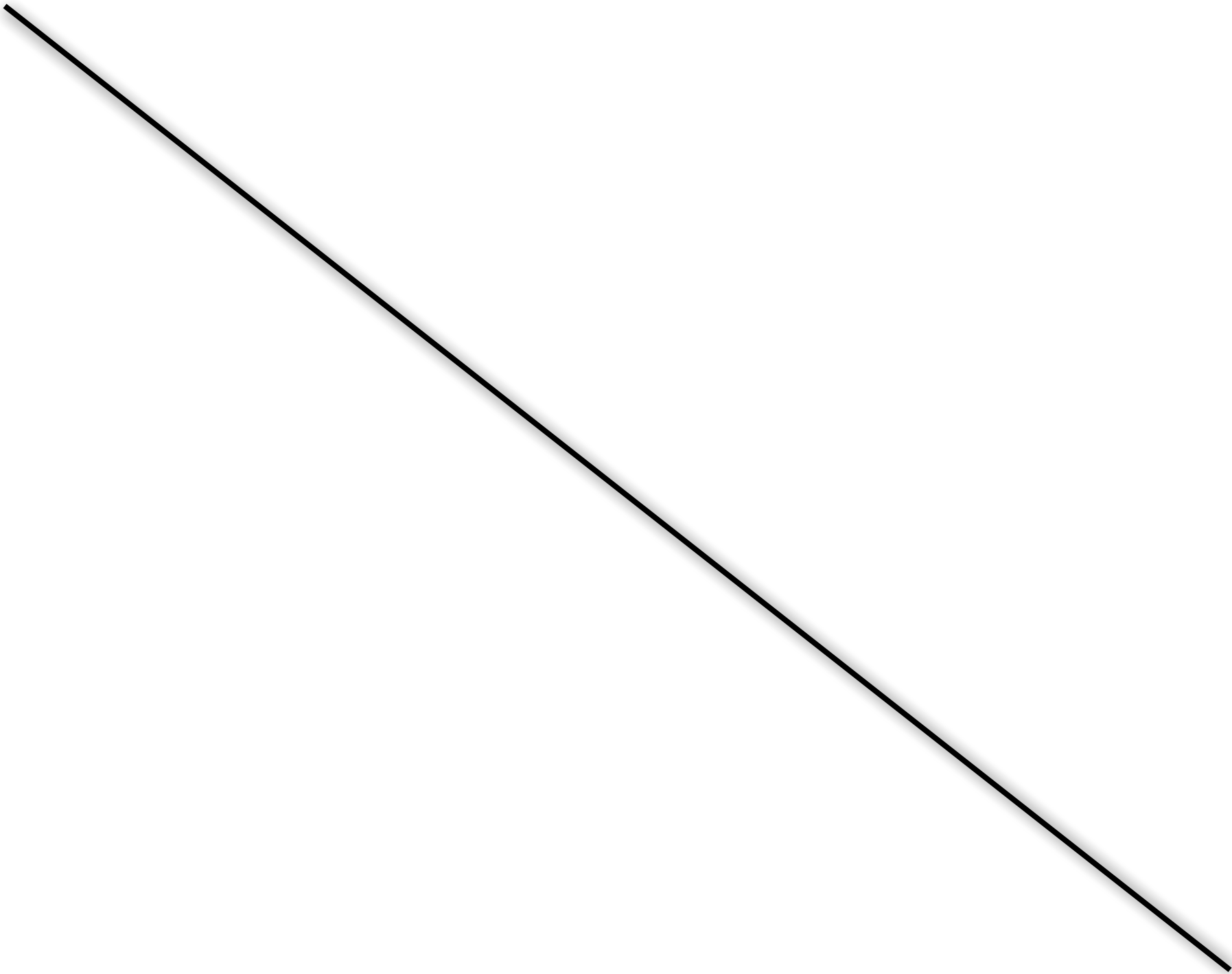




P, MC, ATC, MR



To Maximize
Profit, the
Monopolist
produce Q_0



D

P

0



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—

The monopolist
charge P_0

ATC



1

2

3

4

5

6

7

8

9

0

1

2

3

4

5

6

7

Profit

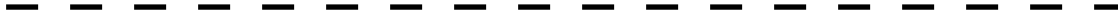
A yellow speech bubble with a black outline and a drop shadow, pointing towards the bottom-left. It contains the text "Supernormal profit in a Non-Contestable Monopoly".

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 Q₁".

the Monopolist
produce Q_1

The monopolist
charge $P_1 = ATC$

1

1

1

1

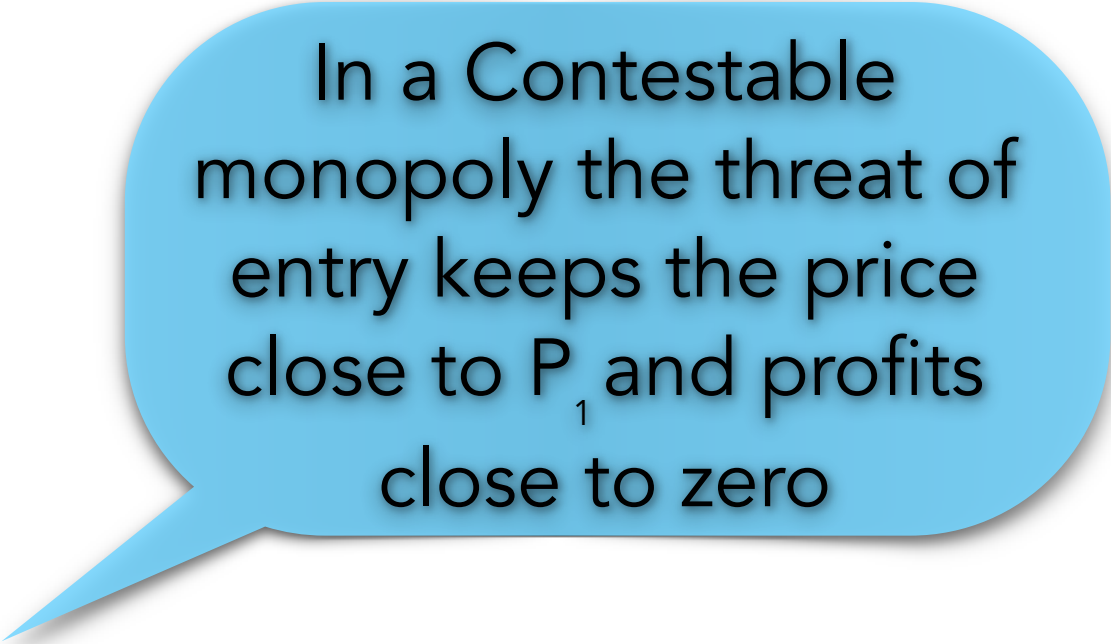
1

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



e

S



a

b



e

M

a





e











mm

S



n



h

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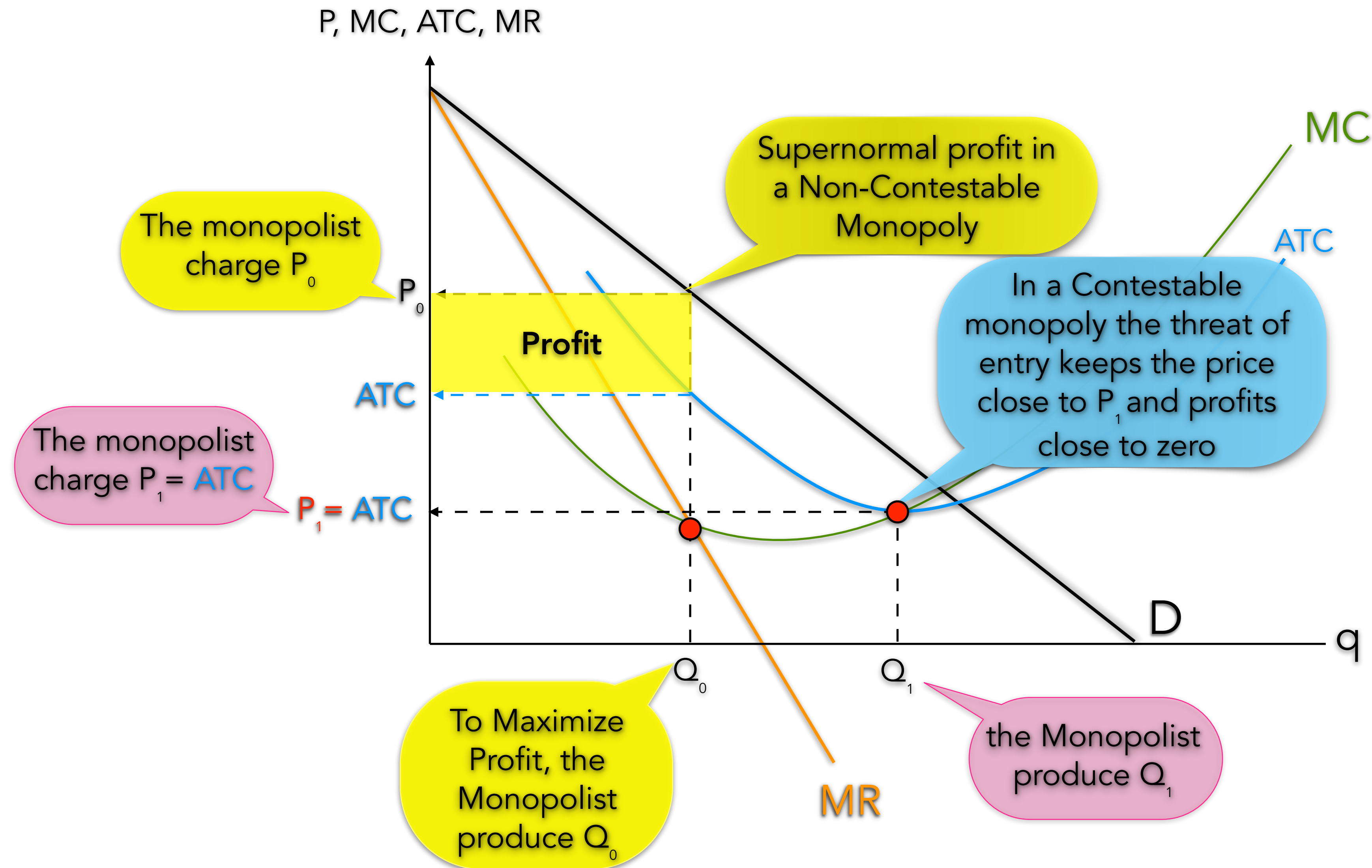
d



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