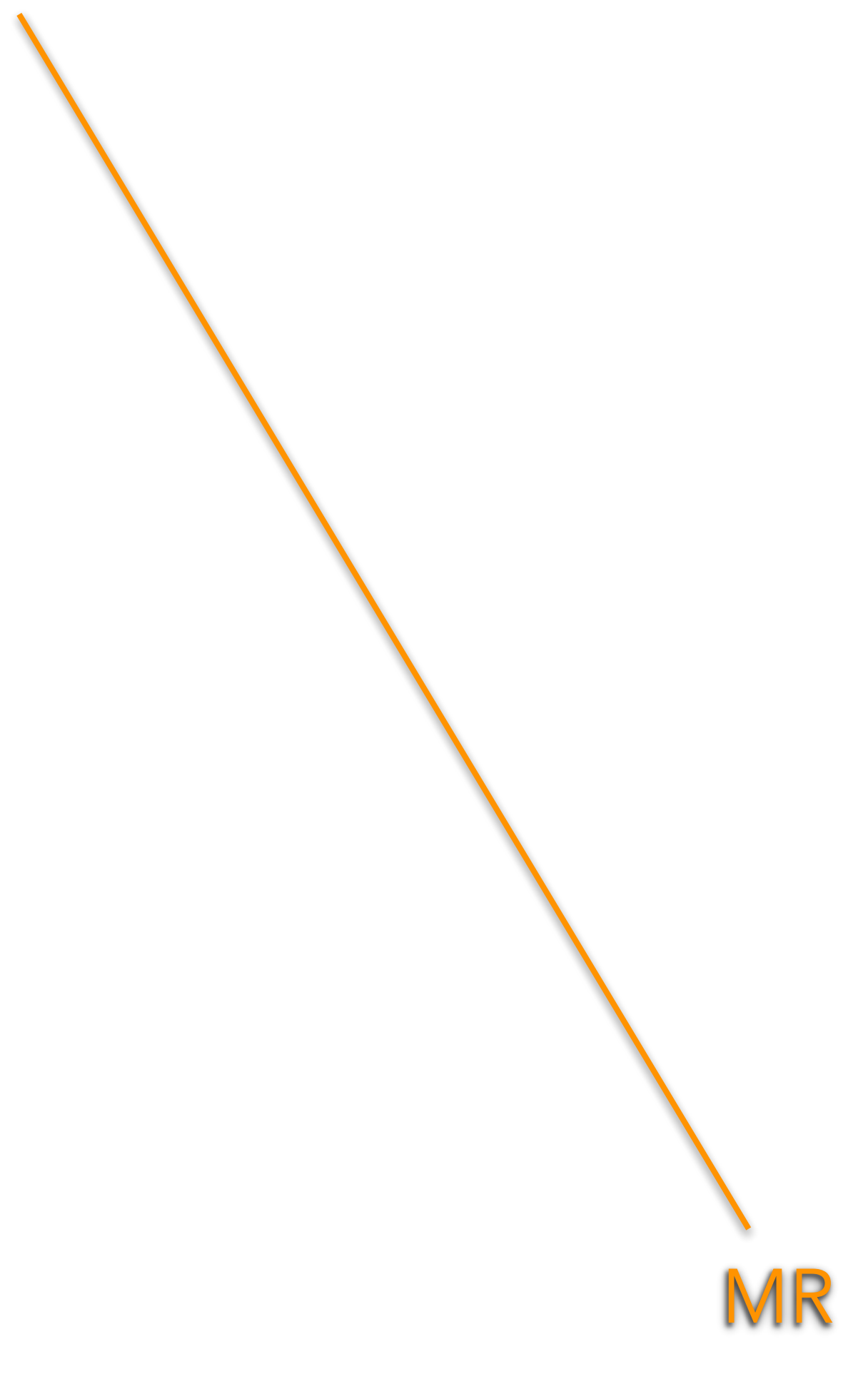
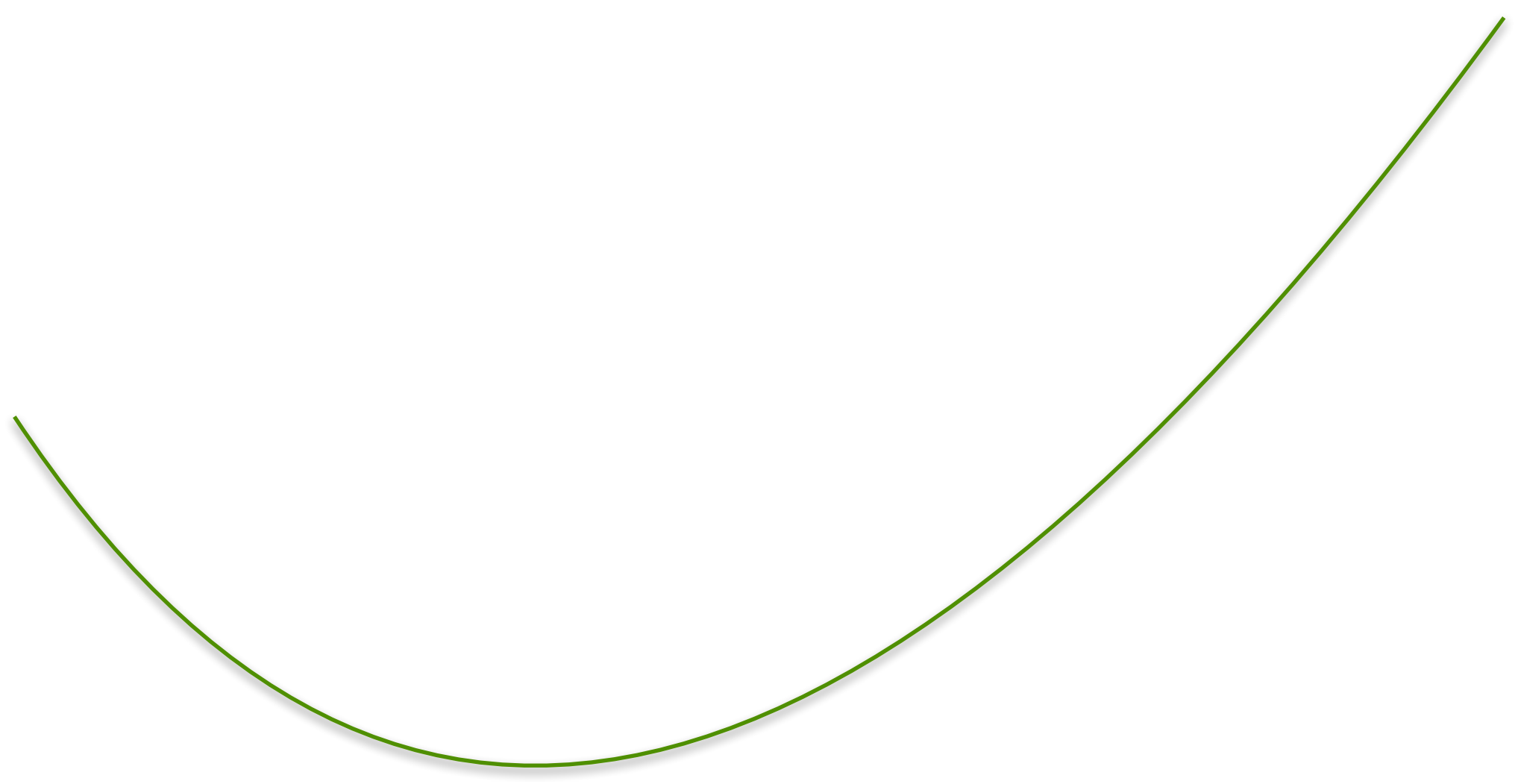




MC

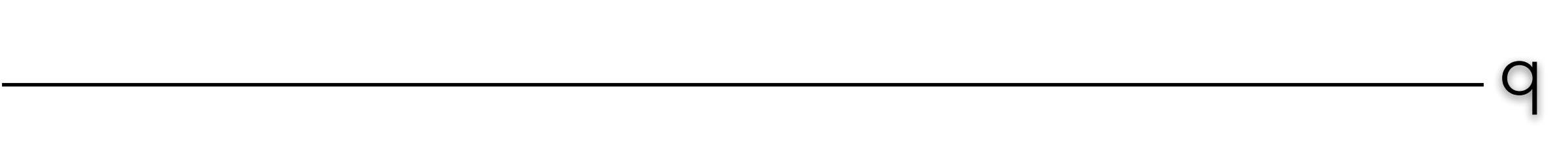


MR



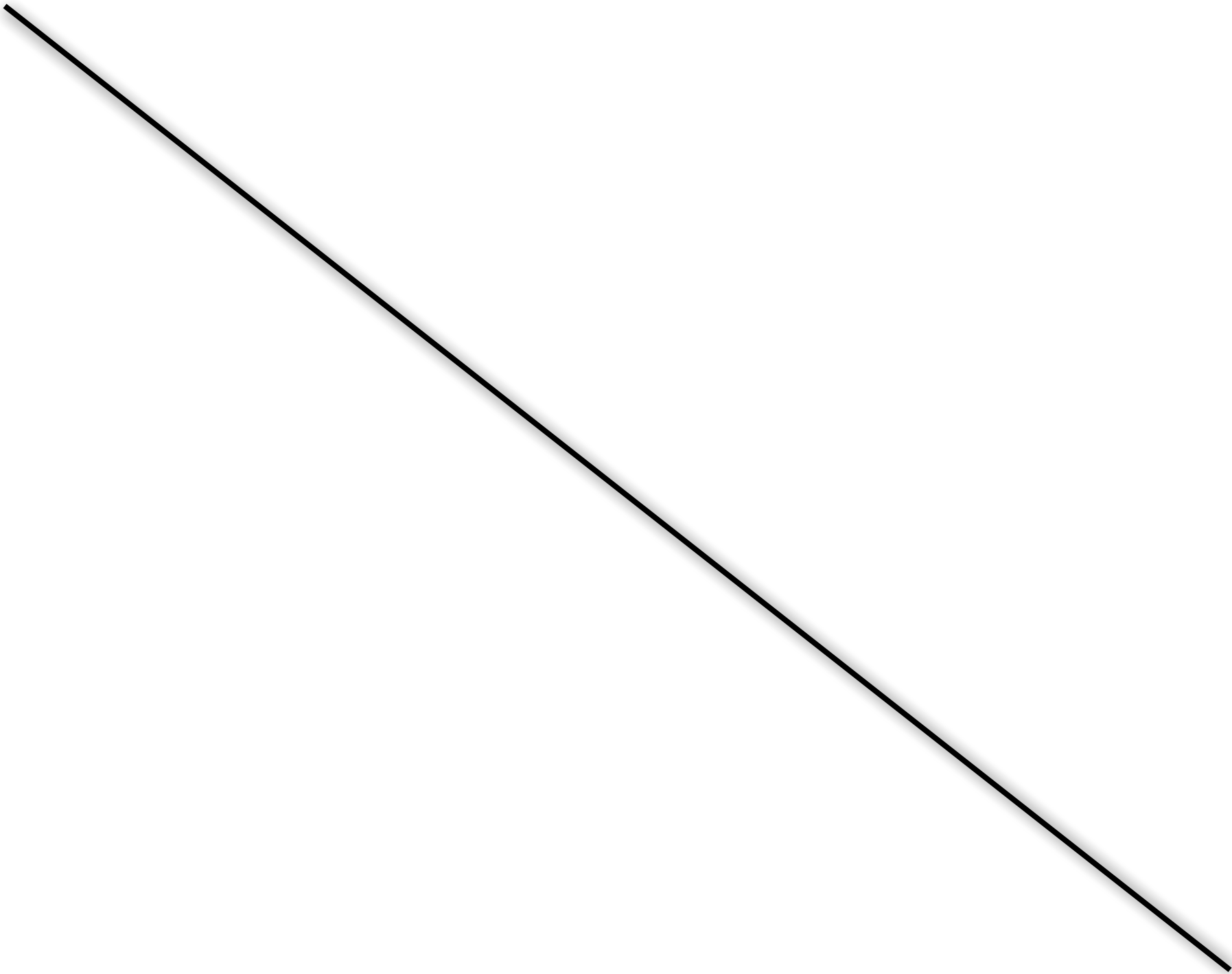


P, MC, ATC, MR



To Maximize  
Profit, the  
Monopolist  
produce  $Q_0$





**D**

P

0



The monopolist  
charge  $P_0$

ATC





0

# 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".

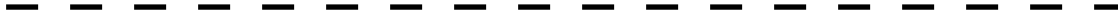
Supernormal profit in  
a Non-Contestable  
Monopoly



ATC



$P_1 = ATC$



A pink speech bubble with a thin pink outline and a drop shadow, pointing towards the top-left.

the Monopolist  
produce  $Q_1$

The monopolist  
charge  $P_1 = ATC$

1

1

1

1

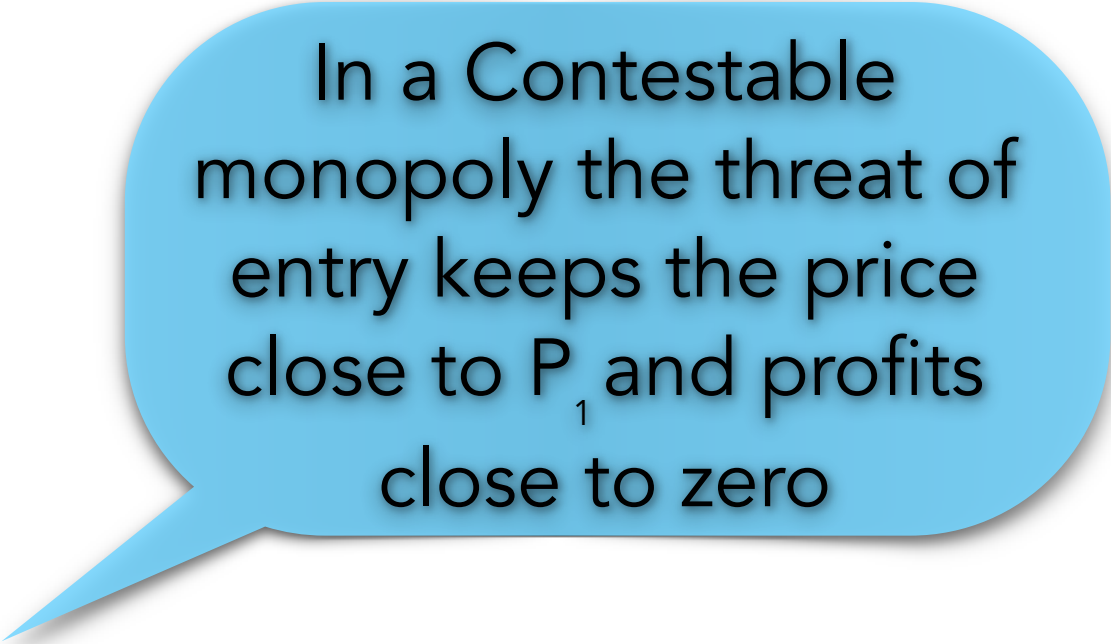
1

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

e





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**Y**



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a





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e

P







e

[REDACTED]

[REDACTED]



A

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S













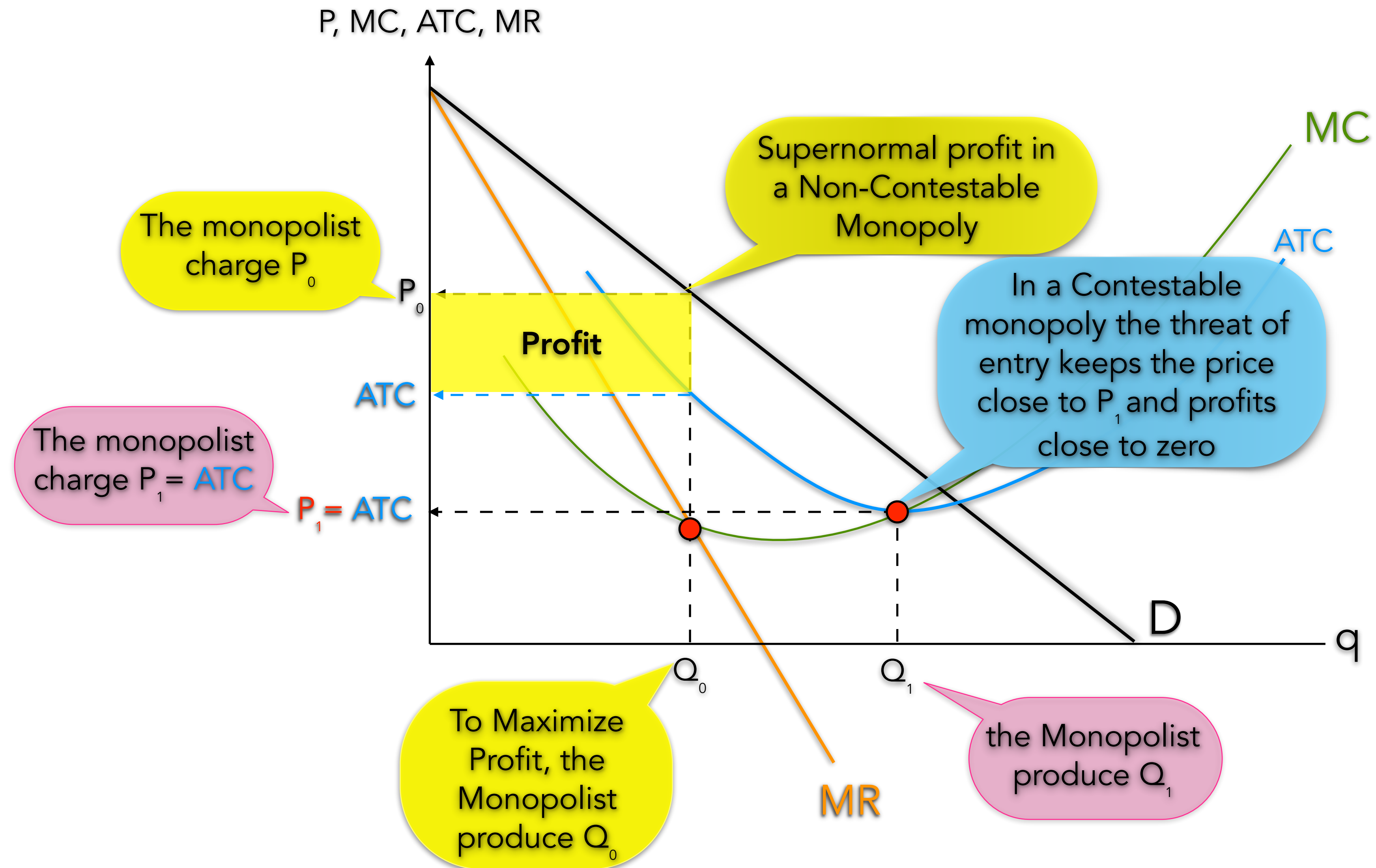
d



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