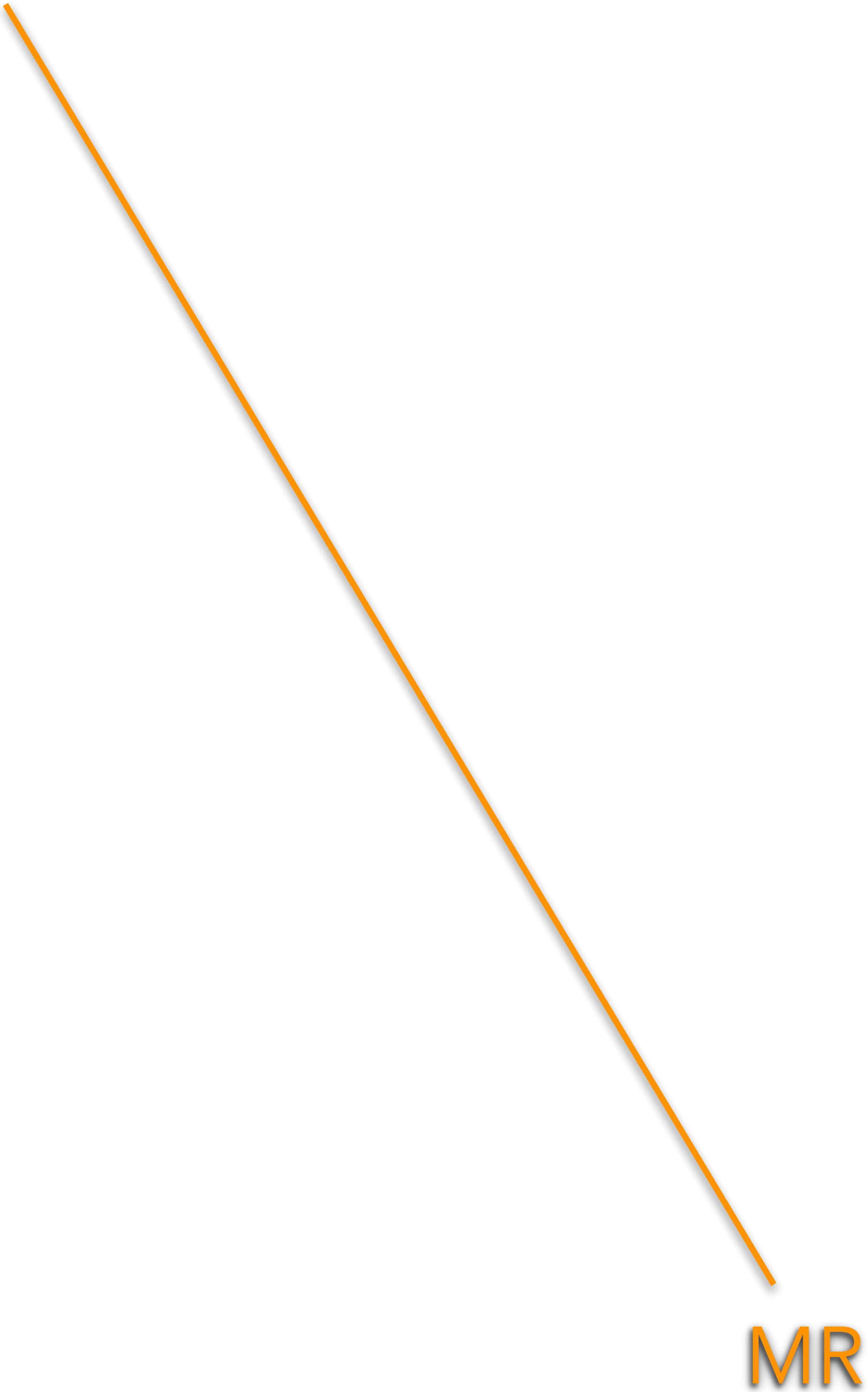
MC


MR

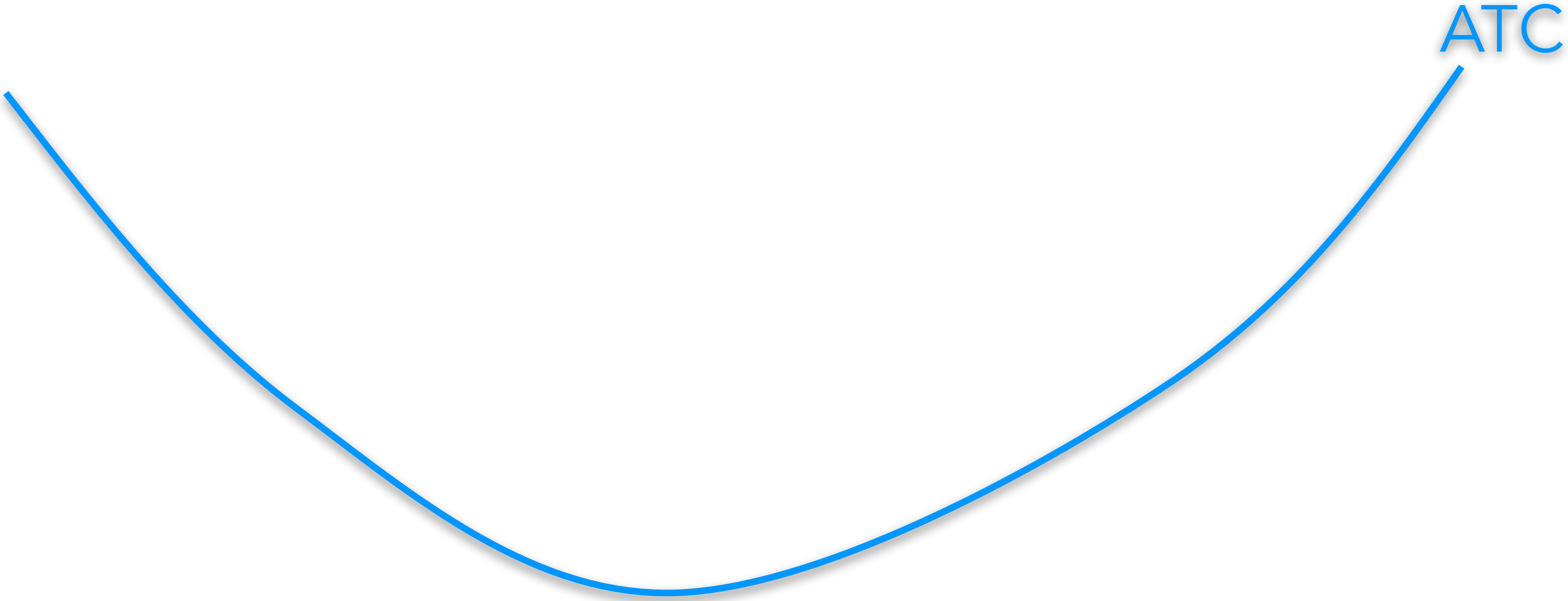
P, MC, ATC, MR

To Maximize Profit, the Monopolist produce Q_0

D

$P_0 \dashleftarrow$

The monopolist charge P_0


ATC

Q_0

Profit

Supernormal profit in a Non-Contestable Monopoly

ATC

$P_1 = ATC$

the Monopolist produce Q_1

The monopolist charge P_1 = ATC

Q_1

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

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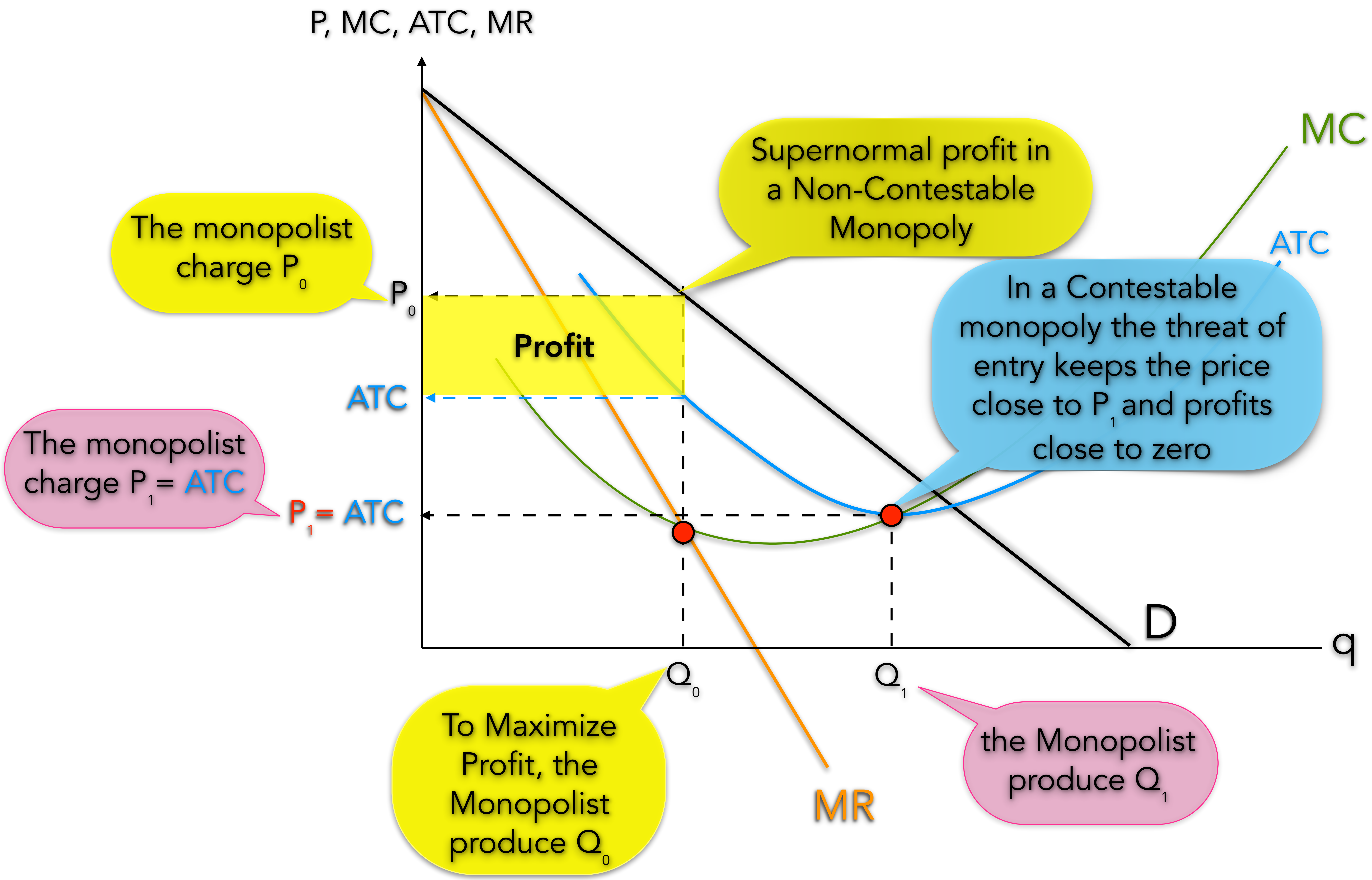
Monopolies exist because entry into the industry is restricted

In a Contestable Market, firms in the industry must charge Price = 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