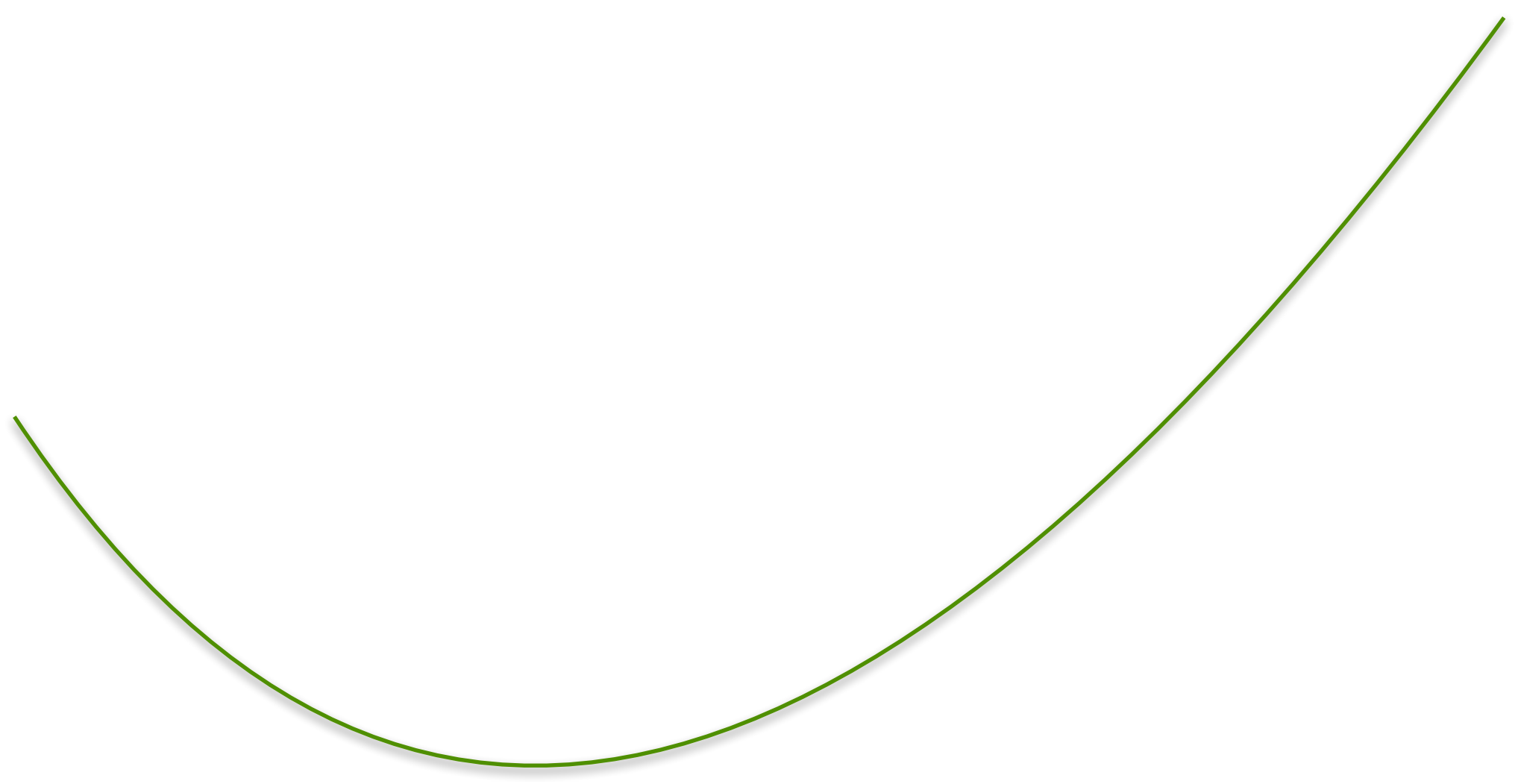




MC

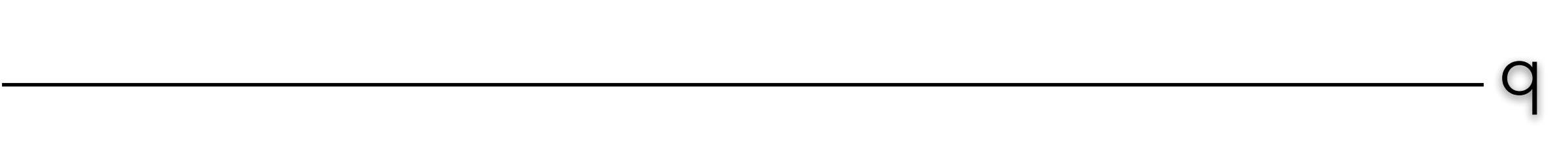


MR



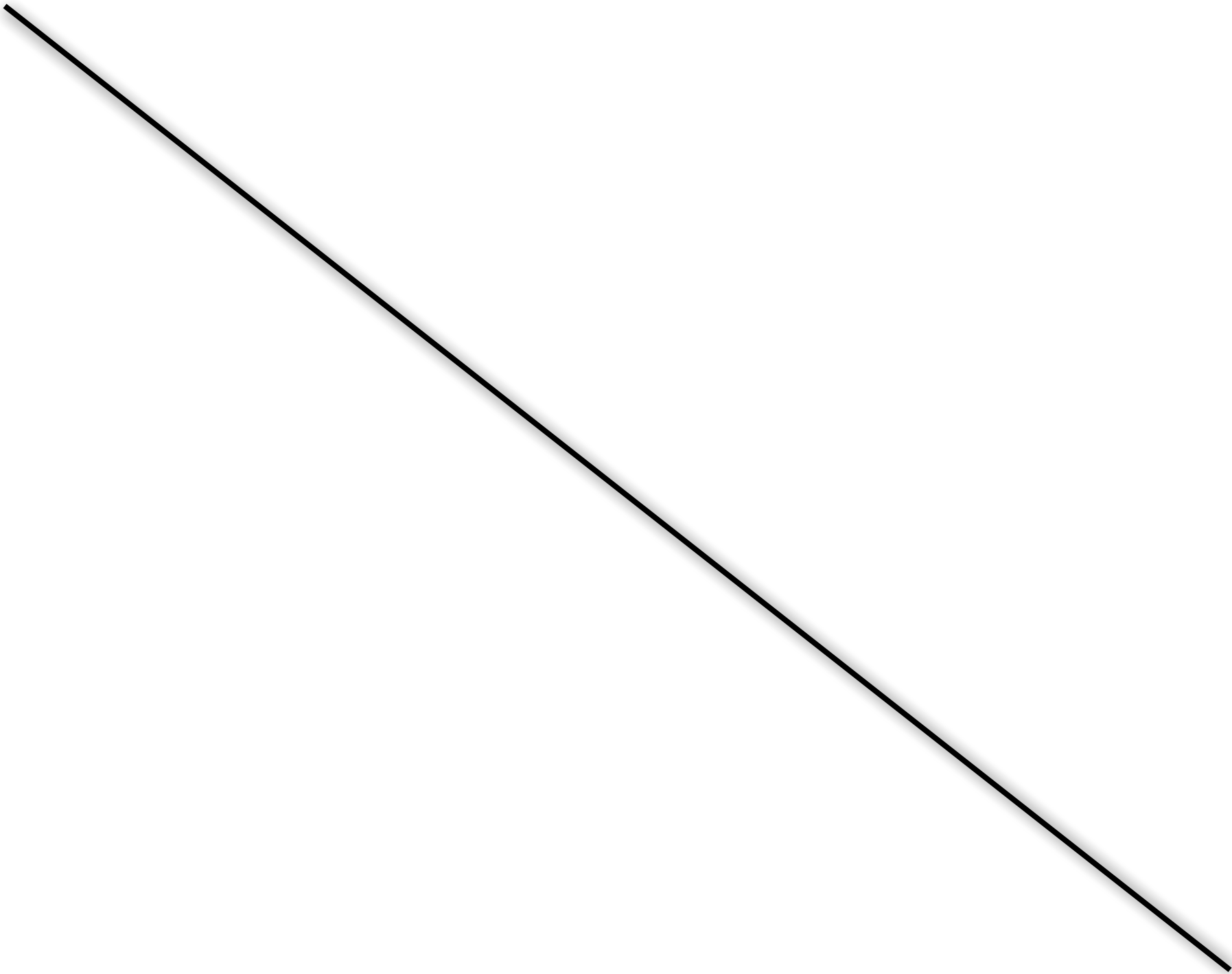


P, MC, ATC, MR



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

9

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".

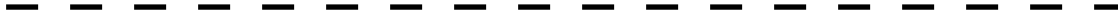
Supernormal profit in  
a Non-Contestable  
Monopoly



ATC



$P_1 = ATC$



A pink speech bubble with a thin pink outline and a drop shadow, pointing towards the top-left corner. It contains the text "the Monopolist produce Q<sub>1</sub>".

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







**S**



a

**b**



e

**M**



a





e













mm

**S**



n



h

e





n

d

u

**S**





**Y**



**m**

u

**S**





h

a





9

e

P







e

[REDACTED]

[REDACTED]



A

**T**







**p**



e



**V**

n



n



**Y**

**M**









**p**







e

**S**







**S**



**b**

e



a



u

e



n





Y













h

e



n



d

u

**S**





**Y**



S





e

S













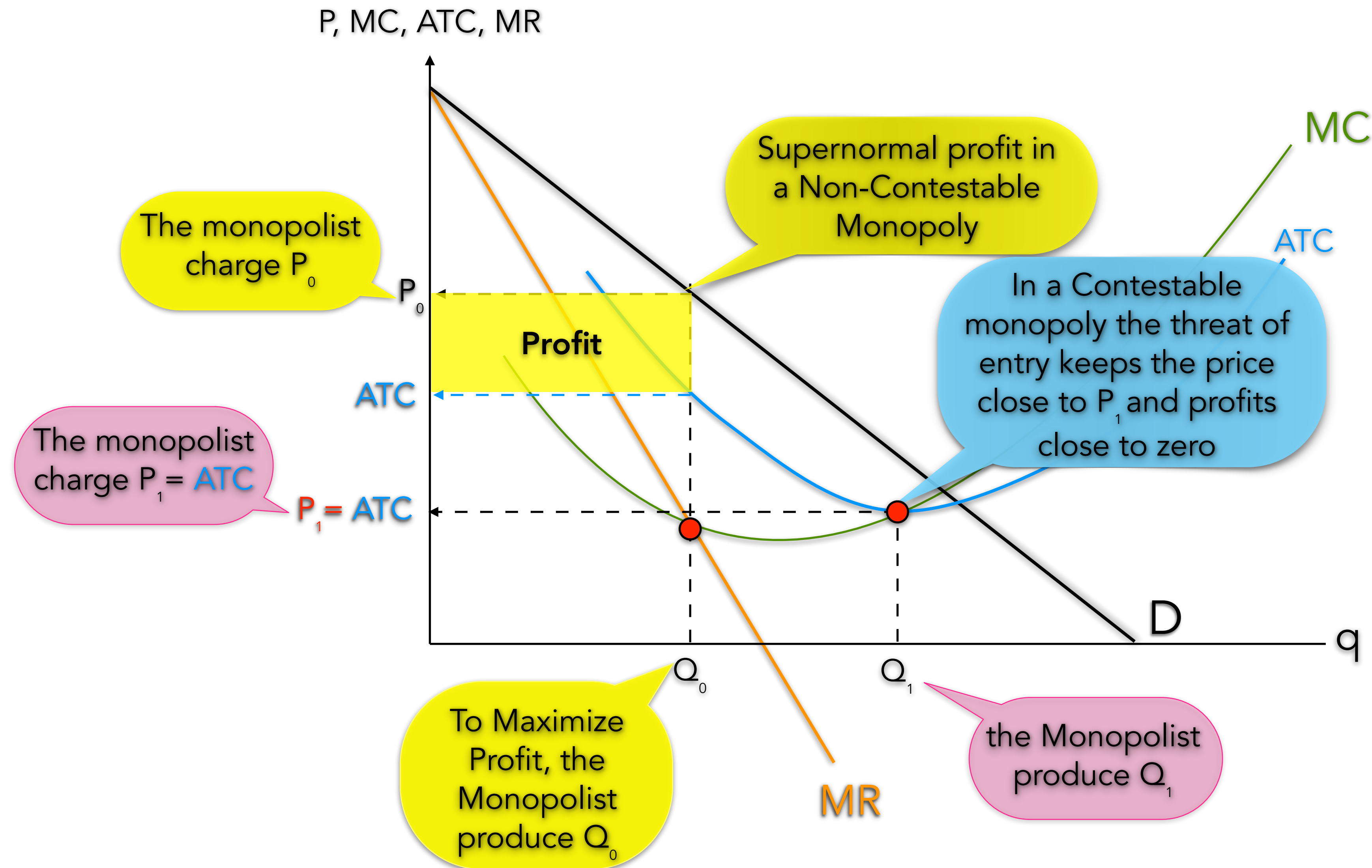
d



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