Week 09 written assignment - monopoly break-up

[Economics]

Week 09 Written Assignment - Monopoly Break-Up Rasmussen College Kristen Cohen Author Note This research is being submitted on December 2, 2012 for Julia Walker’s G204/ECO2023 Section 01 Microeconomics - Fall 2012 Monopoly Break-Up Pareto optimal outcome is one such that no-one could be made better off without making someone else worse off. The concept of Pareto optimality occurs in a number of areas of economics. The allocation of resources in an economy is Pareto optimal, often called Pareto efficient, if it is not possible to change the allocation of resources in such a way as to make some people better off without making others worse off. A perfectly competitive market can be shown to deliver a Pareto optimal allocation of resources. Whether this is the most desirable allocation of resources is matter of a value judgement. I think that consumers are better off when monopolies break up due to the fact that all firms strive to become Monopolies. All consumers strive towards perfect competition. A main advantage for the firm in a monopoly is that fact that they have power over the prices they charge for their certain good/service. It is a disadvantage to the consumer as there is no competition and therefore no downward pressure on price. If the monopoly were to break up into a couple of firms it would no longer be a monopoly, it would be an Oligopoly market. This is great for the consumers as competition is present which means that products should be better quality and lower in price. I do not feel that monopolies are really bad for society. One common argument suggesting they are bad is that they make extra profits. And while it is true that they make extra profit. A monopoly can be inefficient if it not able to perfectly price discriminate. If they can't price discriminate, some consumer surplus will be lost without a gain to producer surplus because the producer can't gain a surplus without selling. So, if the monopoly can't price discriminate it follows that there will necessarily be a heavy loss. The reason they can be considered bad is because they don't produce the same amount as a competitive firm would. Loss production is a loss for society and hence the large heavy loss. But for the consumer as a whole, monopolies must exist, at least for a point in time. I do feel that companies that are operated as monopolies are better off when they break up due to the fact that there is a natural consequence of economy that monopolies will occur; given that competing businesses will have different profits, that there is an inherent advantage towards self-interest, and that the natural advantage a business has is proportional to its size. Regulated monopolies where the company is allowed to operate as a monopoly in exchange for a government oversight and regulation that guarantees a modest but guaranteed profit are necessary in ventures where the capital costs are so large that effective competition is impossible. Pareto efficiency, or Pareto optimality, is a central theory in economics with broad applications in game theory, engineering and the social sciences. Given a set of alternative allocations and a set of individuals, a movement from one alternative allocation to another that can make at least one individual better off, without making any other individual worse off is called a Pareto improvement or Pareto optimization. An allocation of resources is Pareto efficient or Pareto optimal when no further Pareto improvements can be made. Thus in a Pareto Efficient outcome, we cannot make any person better off without making someone worse off (economics. com). References: http://moneyterms. co. uk/pareto-optimal/ http://economics. about. com/od/productionpossibilities/a/pareto. htm