

# Main causes of monopoly essay

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**Main Causes of Monopoly**  
**Definition** Monopoly is the term use to define a single seller in the market whose business is at that point on the economies of scale that no any small competitor enters in to the market to compete him. **Explanation** Usually competitors are those who have the similar products with same quality if there is only one seller in the market who have that product which is not the product of any other company and other sellers do not hold that product, seller of that single product is called monopolist in this way the firm who is selling those products which are not similar to the products of other companies has no any competitor in the market. Goods that are sell by monopolist have no substitute however in perfect competition there are number of sellers in market who have same goods or their substitute and they try to compete another seller by selling his products.

**Reasons of Monopoly Different From other Market Competitions** Monopoly has some of the characteristics by which it is different from other market competitions. It includes: Market consist of a seller who have those products which have no substitute and are not available at any other firm, it is characterized by the single seller characteristic. The substitutes of those goods sell by monopolist is not available in the market so monopoly is the condition in which no close substitute found in market.

There is only one firm in market who has goods which are not similar goods to others so this firm has much control over the price of goods it is all up to that firm to manage price of good by increasing and decreasing the supplies of goods. Company engaged in making such goods that have no substitutes is the top company so no one can compete the said firm or a company that it

already holds main industry of producing those goods. From all this discussion over monopoly one thing which comes is that a firm or company which is in monopoly sell their products with out such market situations like supply and demand changes, if only one firm supply that good in market which is not similar to others obviously every buyer who wants that good should go and buy from them so it is hard to say that in monopoly the monopolist is under pressure of market pressures like changes in price demand and supply, competition by other sellers. However one thing is possible like when a monopoly firm increases price of good much high other competitors in market with the thinking to compete monopolist try to form the substitute of that good and starts selling of good at lower price. A monopoly firm whenever increases the price of product it looses much of the buyers because of that high price, so it sells less and whenever it lowers the price gets more buyers and much sale of products as the price decisions are on monopolists.

The control over electricity supply is we called the pure monopoly because people have no other choice to select some another way of electricity which is cheaper, so what ever the price set by monopolist everybody is bound to pay it. However if the example of drink producing company is taken, for example coco cola now the people have choice to use some other drink if coco cola is expensive one so this is not pure monopoly. In monopoly everybody is bound by the price, which has chosen by the producer. Take an example of monopoly given by Harold Hotelling, “ If there is a beach where customers are distributed evenly along it, an entrepreneur setting up an ice cream stand would naturally place it in the middle of the beach. A competing

ice cream seller would do best to place his competing ice cream stand next to it to gain half the market share, but two stalls right next to each other is not an ideal situation for the people on the beach.

A monopolist who owns both stalls on the other hand, would distribute his ice cream stalls some distance apart”. Thus a market which comprises of single seller is not some times success full because by selling the individual product and lack of competitions makes the seller inefficient and this inefficiency provides ways to others to make substitute of that product and start competing the monopolist firm however market competition is considered healthy for more economic benefits in developed countries. Causes of

MonopolyA pure monopoly exists where there is only a single seller in the market other type of competition which is also the part of market is the perfect or pure competition, in monopoly a singles seller acquires the top place in market as he is the seller of those goods which have no substitutes and are not similar to others but the question here involves is how monopoly comes? Which thing in market is responsible for the cause of monopoly?

Here is the explanation that the history of monopolies is so broad if some one talk about monopoly it is the market situation which is not the occurrence of today, seeking of wealth power and social status are those things which every body wants from the past and still now some times the desires or getting more and high status and high financial rewards increase earning power and an upper hand over others makes a person to create monopoly, but for creating the monopoly situation one thing which is important is high support and high technology with high financial support, those who have these things and have ability to do much more use from

them they use to apply such things in making those products who are dissimilar to others which ultimately increase the profits and cut down competition from other sellers. In those societies where there is a lack of such things like high technological support, bad transportation system and low financial supports these involve monopoly type of business where there is no any other person who have the same powers to make those things which are made by monopolist. However beside these reasons a monopoly is the practice, which comes in to existence with other reasons too includes: Any firm or company who is involve in making the dissimilar product from others and they want to cut down market competition by taking much of the share in market by selling of their product if any other firm wants to make the same product may be it is much costly and difficult for others to make the substitute may be a company who wants to copy the product have not much technology and that skilled force to make the substitute of that product. Sometimes less cost over production may lead to monopoly situation, this occurs when a firm make much of the product and use that natural resource for its production which are not available to others, that firm with lower cost of production produce much more output this output is to that extent that it is capable of moving down the production cost because a supplier is making the product with less expense but he is getting more by providing huge amount of product in market. Consider the example of natural monopoly conditions in which there is only one supplier why there is a single supplier? Reason is the high cost of production.

The technology use in production of such items is much high and if the same technology provided to others to make the same product it will be the loss of

finance consider the example of electric supply companies, gas supply, telecommunication these are those companies which involves much more production cost to provide their products to customers and if there is only a single firm or a company at a place it is enough for that area so no other company is needed to start the same business. This is the condition, which we called the natural monopoly. There are also certain other methods to cut down competition in market one of the famous method for such control over the competitors is to make mergers, merger is that method by which one can easily cut the competition by merge with the other competitor company in order to produce joint product this will ultimately cut downs much competition of market. Use of business techniques to make monopoly for example if some firm is involved in making the similar product a firm for making its products unique in market lowers the price below the cost of production for a short period of time ultimately when a company lowers the price of same product in market other competitors must go out side the market as buyers for the cheap product in market increases so the whole profit goes to single firm. Some times many firms make control over the suppliers who are providing those substitute items to competitors for example to use illegal method and provide much money to supplier and order him to make low quality product with the same price or sometimes high price this is the trick use to create monopoly situation in market obviously when buyer comes in market they always prefer the quality product even the that product is of high cost. Another method is by using illegal method to stop provision of substitute goods in market for example violence and blackmailing. One ore way of making the monopoly is

government support or use legal terms as these are much expensive to other small producers and they cannot afford such formalities like copy right, franchise, license trade mark and other such things from legal support makes the monopoly situation in the market in which a single firm acquires the license of producing that good. There are some other methods to stop competition in market and make the unique product when the seller wants to increase the profit he involves more research and those technological methods, which are more costly for others and take government and legal support for the production.

Some monopolist try to focus on the best production methods for producing the product sometimes even if they use high cost of production they sell the product at less price. Those who do not want to share the revenue as when large number of companies exist in the market who have similar products revenue for a single firm decreases because people have choice to take same good or substitute of that good from other company, that's why many firms always try to use those methods of productions which are dissimilar to others and produce the products with high quality and less price some times for attracting high market position among competitors and much buyers. Is Monopoly Beneficial For Economy? However for the economic and social welfare of society it is prohibited, because such type of practices are not beneficial for society for example if the single seller is involve in selling the product he have full control over the market some body who is capable of buying that good he or she can easily purchase the good even if it is of high price but others for whom the price looks so high they do not use that

product ultimately in a single society it creates divisions like some one better off and others worse off that's why monopoly practice is considered wrong.

“ Rather, the purely “ economic” case against monopoly is that it reduces aggregate economic welfare (as opposed to simply making some people worse off and others better off by an equal amount). When the monopolist raises prices above the competitive level in order to reap his monopoly profits, customers buy less of the product, less is produced, and society as a whole is worse off. In short, monopoly reduces society's income”. (Monopoly, by George J. Stigler)ConclusionThus, monopoly has so many reasons to exist the practice of making the market competition as monopolistic is wrong consider in economic health an social welfare of the country, however there are also some conditions in economy which requires the monopoly firm to continue the business these are the situations in case of high technology firms it is hard for every body to use much technology in the production of goods. So in these cases monopoly is consider right. Countries which are developed and have much money for the production of much technology are using the pure competition to exist in market it is to say that competition is best things for moving forward business and efficiency with out competition market situation is ineffective and suppliers are inefficient it is only the competition which makes them efficient all the time and encourage the sellers to produce more and high quality product then other.” Many governments, however, have created public-service monopolies by laws excluding competition from an industry.



What resulted were generally publicly regulated private monopolies, such as some power, cable television, and local telephone companies in the United States. Such enterprises usually exist in areas of “ natural monopoly,” where the conditions of the market make unified control necessary or desirable to the public interest”. (Monopoly — Infoplease. com) Much of the monopolies companies have the support of government there are very small amount of companies which do not have the government support in monopoly. In the united states law the monopolies are consider wrong for the economies benefits according to them the monopoly practice is that which is involve in cutting down the market competition which ultimately makes businesses in effective and it is responsible for making the divisions in public, as from the social welfare point of view it is to say that give same treatment to every body in economy market not only consist of those buyers who are capable of paying the high amounts but also of those who are not. References A Griffiths ; S Wall.

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