Monopoly

Literature, Russian Literature

Monopoly Inefficiency Monopoly This refers to a single imperfect firm which restricts output in order to maximize profit. The monopoly is viewed as the price maker and will produce less but sell at higher prices.

Inefficiency

In respect to monopoly, inefficiency is defined as the in ability of the firm to allow the forces of demand and supply to freely interact to establish equilibrium prices and quantity without the firm intervention (Hirschey 111). The monopoly being a price maker, it restricts the quantity and charges a higher price and hence creates a dead weight loss to consumers.

Perfect completion

This refers to a market structure with many sellers and buyers with sellers being price takers and has no control over prices and quantity (Hirschey 123). The equilibrium price and quantities are determined by instruction of economic forces of demand and supply.

Contrasting monopoly and perfect completion

Price determination

Monopoly is a price maker via the marginal cost pricing mechanism while perfect completion is a price taker (Hirschey 124). The monopoly retracts output and charges higher prices whereas perfect completion market has no control over prices which are determined by economic forces.

Barriers to entry

In perfect completion, there is free and exit while in monopoly, there are strict entry regulations leading to lack of completion and thus inequality products.

Dead weight loss

Price mechanism employed by monopoly leads to dead weight loss as consumer’s transactions is forgone by these firms. A monopoly is thus inefficient in total trade gains as compared to perfect competitive firm.

Level of completion

There is no competition in monopoly as compared to stiffer competitions in perfect competitive firm. This has led increased inefficiency and less innovativeness in monopoly as compared competitive firms.

No of market participants

In monopoly there is a single seller with many buyers while in completive market there are many sellers and many buyers trading in a variety of homogenous products

Reasons for monopoly inefficiency

Produce where price equals average total cost

A monopoly produce very less and chargers higher price where price is equal to average cost and this leads to abnormal profits a dead weight loss to the consumers.

No incentive to cut cost higher cost of competition

A monopoly faces minimal completion based on the stiff barriers to entry which keeps away potential competitors making competition cost much expensive (Hirschey 134). This results into production of substandard commodities at busting prices.

Allocative efficiency

Price is above average total costs and marginal costs with lower outputs.

Abuse of power

This involves price discriminations which only accounts in parts for benefits of provision and consumption of optimal amount of commodities and costs and inability to achieve allocatve efficiency. This translates to market failure.

Dead weight loss

Monopolist bypasses the customer's transactions and these leads into dead weight loss to the customers based on the marginal cost price mechanism.

Weakened market forces

Lack of product variety leaves no customer without alternatives and will be forced to buy from poor quality products from monopoly that invest very less in research and development based on notion of automatic sales.

Graphical interpretation

The respective graphs are attached showing the equilibrium price and quantity determination. The equilibrium price and quantity for competitive is determined at point b where the AC= AR= MR= MC= P making a normal profit (Hirschey 165). On the hand, the monopoly produce at AR= P as shown making an abnormal profit as it is able to restrict output.

Reference

Hirschey, M. Fundamentals of managerial economics. Mason, OH: South-Western/Cengage Learning, 2009. Print.