

Free essay on monopolies and the microsoft case

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A monopoly Market structure exists when a sole trader dominates the market. The main feature of the structure is that consumers face a single seller who controls and determines the buying price in the market. It is different from perfect competition structure, which has many buyers and sellers with free entry and exit into the market. Monopoly firms operate on large scale and usually have a large market share if not all. They are the price makers in that they determine the price at which they sell their products since they are the sole suppliers in the market without any competition. They can decide to make their profits by supplying low quantities of products and charging high prices or by producing large quantities to sell them at very low prices to scare away potential competition.

Firms obtain their monopoly powers from a multiple number of sources which results into different types of monopolies. A natural monopoly occurs when initial set up and operation costs of running a business are high. Natural monopolies enjoy economies of scale which are advantages obtained from operating at large-scale (Orbanes, 2007). When a firm operates at large-scale, the marginal costs (cost incurred in producing an extra unit of product) declines significantly. This situation will scare away competitors who face high initial setup costs that increase the marginal costs with increase in production. This enjoyment of high marginal revenue (income generated from producing extra unit of product) by natural monopolies over their competitors gives them monopoly power.

Government monopoly occurs when the state enacts laws restricting competition and reserving supply of products or services in certain economic

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areas in favor of government agencies. Government monopolies derive their monopoly powers from their parent act. Exclusive ownership or access to factors of production is a source of monopoly power. When a firm controls the supply of raw materials, it can choose not to supply, competitors and this will create monopoly power. A geographical Monopoly is a monopoly that obtains its powers from strategic location in a certain area. An example is the existence of a single supply chain store in a given area. Technological monopolies occur when a firm obtains legal protection against completion in form of government rights, patents or copyrights. Microsoft is an example of a technological monopoly in that it patented most of its products.

Monopoly pricing occurs by either fixing the selling price or determining production level. Monopolies face a downward sloping demand curve because they are the sole traders in the market. They determine the price at which to sale or the quantity at which to supply but cannot determine both. They make their profits at breakeven point where marginal revenue equals the marginal cost (Orbanes, 2007). As result of low total costs compared to the total revenue, monopolies make supernormal profits in the short run. Dead weight loss to the society is the burden that the society bears when monopolies decide to produce below the equilibrium output. Consumers bear a loss of not being able to gain from the products had the monopoly decided to produce at equilibrium. Many monopolies exercise their powers to maintain the status quo in the market and eliminate the competition. They have similar behaviors and characteristics across the market. They exercise barriers to entry into the market. They may decide to produce and supply at low prices due to economies of scale in order to discourage new

competitors who will be out of the market due to high costs. Another feature is exclusive dealing and boycott buying. Monopolies may decide to supply to exclusive outlets to control supply and prices in the market. They also buy from specific suppliers while boycotting others to limit competition. They exploit consumers through price discriminations, forming cartels and high prices.

Some detrimental effects on the society associate monopoly actions. Among the disadvantages of monopolies are ex-inefficiencies. Monopolies tend to produce inferior products while charging high prices for them due to lack of stiff competition. Low innovation and consumer choice are a disadvantage to society. Lack of competition makes monopolies lazy in coming up with new products. Some monopolies exhibit detrimental rent seeking behavior. They take advantage of their powers to produce inferior products, charge high prices and stem out competition. It involves taking advantage of loopholes in the existing laws, environment and market to gain resources and create new wealth in return. Diseconomies of scale suffered by monopolies are transferred to consumers in terms of high prices.

Microsoft as a monopoly exercises its monopoly powers to limit competition and maintain its dominance. The state has accused it of unfair competition practices aimed at exploiting consumers through high prices and limiting fair competition. Among the practices is product bundling, which involves putting together many products and presenting them as one package. It increases revenue to the supplier while increasing costs to competitors who produce the products separately. An example is the Microsoft office suit with different

products like word processors, spreadsheets and database software (Elgan, 2007). Antitrust laws are legislations by federal government to discourage, prosecute and prevent monopolies from engaging in exploitative practices that prevent fair competition and exploitation. The government's suit against the Microsoft firm is justified since it will encourage competition and increase in consumer choice.

Monopolies such as Microsoft are however not totally disadvantages. Ventures that require high initial capital and operation costs can be successfully initiated by monopolies. They enjoy economies of scale, which lowers the overall costs of production. This may at times lead to low priced items by monopolies. Monopolies also ensure price stability in the market since they fix the price and quantity supplied. The prices of Microsoft windows, software and other Microsoft products have been generally stable overtime due to low competition (Elgan, 2007). Research is effective when undertaken by monopolies due to low cost. Microsoft runs a successful research program into programming and software development. Mutual benefit to consumers and firms is achievable through implementation, adherence and execution of antitrust laws.

References

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