Natural monopoly essay sample

The concept of “ Natural Monopoly’ comes from economics. It is a situation in which majority of the portion of market is covered by a single firm or company. The goods, services or products offered by the company covers the maximum portion of the market. A Natural Monopoly is a situation in which the cost of producing the product (goods or services) is lower due to economies of scale. In a situation of Natural Monopoly, there are no close substitutes to offer the same product or services.

Economies of scale is a situation or condition in which the cost to a company of producing or supplying each additional unit of a product or service decreases as the volume of output increases. Economies of scale is not the only reason for the existence of monopoly. A Natural Monopoly also exists because of sole access to a particular resource or technology and because of the use of non-market means to eliminate competition, including buying up competitors and colluding with customers r suppliers to discriminate against competitors.

A Natural Monopoly also exists even if there are multiple competitors in the market. In such case, the firm which can attain the largest volume of output and the lowest production cost will be called as a Natural Monopoly. All the other firms will have to exit the industry because they are unable to compete on a price basis. Basically, it is very difficult for any competitor to nter the market of natural monopoly because of very high cost of production facilities which includes the cost of infrastructure.

There is also a high uncertainty among the intended competitors that they will be able to oust the existing monopolist. Some of the most commonly used examples for natural monopoly are utilities such as water supply system, electric power transmission system, railroads and pipelines. Though it is very difficult for any intended competitor to enter the arket of natural monopoly, but it is very important for us to remember that natural monopoly is not permanent.

This is because technological advances can lead to the development of new forms of competition for an industry, change its cost structure and affect the demands for its products. For example, canals were once a natural monopoly for bulk transport in parts of Europe and the U. S. , but these monopolies disintegrated during the nineteenth century as a result of the development of railway.