Consumer costs of monopoly essay examples

[Business](), [Company]()

It has been proved by economic theory that perfect competition is the best effective structure to maximize society's benefits (Consumer Surplus + Producer Surplus). In a perfect competition (price equals marginal cost, MC= P), when there are no entrance barriers and no producer is able to influence the pricing levels, the equilibrium point is on the intersection of the supply and demand curve. Monopolistic firms, however, are able to influence pricing levels, as they have no competitors and maintain high market share. The equilibrium point in monopolistic markets is on the intersection of marginal cost and marginal revenue curves (MR= MC). This means that monopoly companies may increase their surplus at the expense of the consumer surplus, by raising price and, thus, decreasing overall output. As a consequence, a dead loss for the society occurs (see figure 1):

Figure 1. Impact of monopoly on society's welfare.

Source: Ray Powell, Business Economics and the Distribution of Income (2012) 64. Print.

These theoretical concepts are equally fair to some US industries. When a company or a conglomerate controls more than 35% of the market, and produced goods do not have direct substitutes, producers might exploit their monopolistic position by increasing prices to the levels when MR= MC, thus, decreasing overall output because of drop in demand. As a result, market operates not efficiently and losses certain amount of welfare.

Health care insurance industry is an example of oligopolistic market, where few companies dominate the industry. These companies can also influence price levels of the insurance products, as there is very small competition in a given market. In addition, the demand curve for health care services is inelastic, which means that people will be still paying for insurance services regardless of the fee levels. This brings us to the situation where insurance companies are overpricing their services and still getting enormous profits because of lack of competition and demand inelasticity. The situation might be changed if large monopolistic companies could be split into smaller ones to provide competition incentives. Furthermore, more government control should be imposed on the industries which are tending to be monopolized, so that they wouldn't exploit an advantageous position where competition is limited.

Reference list

Powell, Ray. " Business Economics and the Distribution of Income." (2012).