Monopolies and oligopolies

Monopolies and Oligopolies Monopolies are firms which are the sole source of a product, has no close substitute, and overwhelmingly dominates the market. This is the case of Microsoft as it has established itself as the only supplier of the Windows Operating System. By way of patents and copyrights, Microsoft has been able to establish a barrier of entry into the market and is thus able to eliminate competition. Though there may be other operating systems available, non are comparable to the system that consumers have become dependent on. The ability of Microsoft to dictate not only price, but also the products that are introduced, indeed make it a monopoly.

Other manufacturers have attempted to enter into competition with Microsoft by the introduction of competing operating systems and may have success on the edges of the market. However, this competitor does not fit the definition of close substitute and has difficulty entering the market. Apple has recently introduced the Windows Operating System on its machines and has reinforced Windows as a monopoly. Consumers are tied to Windows for practical reasons as well as the piece of mind that familiarity brings and they can find no close substitute.

When consumers can find no close substitute and are locked into a data processing system, it allows Microsoft to charge whatever the market will bear. In the Microsoft model, they have priced their software at the level that will produce the greatest returns without effecting demand. This has allowed them to optimize their pricing based not on demand, but as price setters. This is another indication that they are a monopoly. People will no sooner switch from Windows than they would buy a rhinestone engagement ring as a substitute for a DeBeers diamond, no matter what the cost. The fact that

they have a barrier to entry, can set the price on their own terms, and have a consumer base that will not accept a substitute makes Microsoft one of the largest monopolies in the history of the world

Similar to the monopoly, but with a small amount of limited competition is the oligopoly. The oligopoly has few competitors and often there is cooperation among the few suppliers to maximize returns on limited products. This is the case with California's electric power industry. Though the distribution of electricity may seem to the consumer as a single source, there are in fact a few sources for California's electric power. These few sellers in a market with no suitable substitute qualify as an oligopoly.

The risk to the public from the formation of an oligopoly is that the members will form a cartel and unduly influence the price and demand factors. However, antitrust and collusion laws generally prevent this from occurring. The oligopoly walks a thin line between a willingness to cooperate with the other members and a need to compete. Oligopolies will cooperate when it is in the interest of the oligopoly. They will compete when it is in their own self-interest.

With few suppliers for a needed commodity such as electricity, the suppliers will be tempted to elevate the price by colluding to control the supply. This tactic only works so long as the members maintain their trust and stay within the agreements. In reality, the oligopolies will become self-serving and opt out of the honor system in an attempt to gain an individual advantage over their competitors.

California, with an oligopoly supplying their electric power, is not at risk of being blackmailed and manipulated into paying ever increasing electric prices. Current laws such as the Sherman Anti-Trust Act make the practice

illegal, and the public's awareness of the cost of electricity makes it difficult to engage in price fixing. Electricity, with our current technology, is not able to be supplied by more than a few producers and the concept of large scale centrally distributed electricity will dictate that it will remain an oligopoly into the foreseeable future.

References

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