

Microeconomics homework

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Patent is defined as the bundle of rights of an investor or his assignee to have “ exclusive rights” granted by the state for a fixed given time in trade for a discovery of an invention (Freeadvice. com 2008: 1). Based from this definition of patent, it is already clear that an individual can have the freedom to solely produce a certain good given that he/she invented it. This sole production of an individual or a firm triggers for the existence of monopoly in the market.

Monopoly requires only a single producer and many buyers. Therefore, with the aid of patent, an individual can easily engaged into monopoly since the government would provide that said person legal protection and privilege to be the sole producer of a certain good after a specific period of time. This legal protection of a certain invention serves as the barrier for other people to reproduce it other than the inventor or his assignee.

As for the case, due to the discovery of sucralose as a substitute for sugar the state awarded Tate & Lyle its property rights over sucralose leaving them the sole producer of the said products. Since the company is the sole producer in the market of sucralose, it turned out that the company already created monopoly in the market. Other market players can only start to produce sucralose only by 2020, which means, no other market entities will be able to supply the market with the said product other than Tate & Lyle for the next 12 years.

It was identified and stated on the given case that the production of artificial sweeteners in the market is very profitable to a point wherein almost 20 percent of the total profit of Tate & Lyle comes from their production of

sucralose. Tate & Lyle is already on the process of putting more manufacturing plants to further increase their production capacity to supply the high demand of artificial sweeteners in the market which eventually to the acquisition of more profit out of their production.

This high profitability in the monopoly of Tate & Lyle of sucralose made other firms in the market to eagerly find ways to enable them to also produce artificial sweeteners in the market legally. Even if the patent becomes expired by 2020, the demand of artificial sweeteners will be high enough to accommodate the entry of other producers of artificial sweeteners in the market. In addition to this, since Tate & Lyle charges high prices on their artificial sweeteners, industries that use artificial sweeteners as one of their inputs wanted to take out the patent rights of Tate & Lyle to lower down the price of artificial sweeteners in the market as competition step into the market.

Although artificial sweeteners are already cheaper as compared to conventional sugar in the market, industries would still want to further lower down its prices by infusing market competition through getting rid of Tate & Lyle's patent rights over the production of artificial sweeteners in the market.

Discuss whether patents in the artificial sweeteners market lead to market efficiency or market failure.

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Although not implied directly on the given case, but certainly, the existence of patent rights to Tate & Lyle causes failure in the market. Price of artificial sweeteners would not be that high if there is competition existing in the market. Consumer welfare will surely improved if price level of artificial sweeteners in the market would go down. There will also be enough room for those companies that uses artificial sweeteners to minimize their production costs, thereby leading to cutting of the prices of their products. In this regard, it is clear that it is not only the consumers that will be benefited by the removal of patent rights to Tate & Lyle but also other firms that use artificial sweeteners as a factor of production as substitute to the conventional sugar in the market.

Yes, it is true that the discovery of artificial sweeteners provided benefits to the market as a replacement to sugar, but that benefits can still be further improved if its prices will be controlled by market competition and not by simply monopolizing agent who's goal is to on how to increase their profit through utilizing the bundle of rights that was given by the government. But on the other side of the coin, if the government would remove property rights to those who will discover something new in the market, there is a big possibility that they will be de-motivated to have an initiative to conduct researches and make inventions since it will be easily copied by other firms in the market thereby defeating the initial purpose of conducting research – provide ways to improved the market position of the company.

Well, this scenario is inevitable since the government would still have to protect the interest of the consumers as well as the inventors. As an alternative to solve this problem of improving the quality of welfare of both parties, the government could provide patent rights to a certain company but with a condition of setting floor price or price ceiling in order to protect the interest of the consumers as well as the company itself.

Works Cited

1. Freeadvice. com (2008). What is Patent [online] http://law.freeadvice.com/resources/gov_material/patent_trademark_office_patent_defined.htm [Accessed 1 March 2008].