The government action to restrict monopolization essay example

Business, Marketing

The welfare and income distribution in a market economy is largely influenced by the market structures prevailing in the economy. The degree of competition existing in the market can determine the distribution of wealth between the consumers, producers, workers, and others related to the system. It is a general notion among economists and policy makers that monopolization of the market works contrary to the principle of general economic welfare. The contention is based a number of arguments that favor a competitive market structure over a monopolistic one. The purpose of this paper is to analyze the arguments both in favor of and against monopoly markets.

The welfare reducing effect of a monopoly can be clearly understood if we contrast a monopoly market with a perfectly competitive one. In a perfect competition there are a large number of sellers and a large number of buyers. The goods that the sellers offer are homogeneous in nature. The individual seller has no influence on the market price. The outcome is that, each seller earns a normal profit in the long-run. The sellers operate at the lowest point of the long-run average cost curve. That is the optimal point of production for the economy. In case of a monopoly there is only one seller who has an absolute influence over the price. The monopolist restricts the output sold in the market to keep the price high enough to earn super-normal profits. The consumer surplus is lower than in a competitive market as the consumers pay a higher price in a monopoly market. Thus, a competitive market ensures greater allocative efficiency. A large number of sellers enjoy a normal profit and the buyers have higher consumer surplus. The super normal profit of the monopolist is distributed among the large number of buyers and sellers in a competitive market. There is more equality in the distribution of income in a competitive set up.

Another distinction between competition and monopoly that points to the inefficiency that creeps in with monopolization is the optimal point of operation of the firms. Under perfect competition each firm operates at the level that ensures the optimal use of the society's resources. Since the monopolist restricts output to increase the price, the monopolist has to operate at a suboptimal level. This is a loss in economic efficiency. Apart from these two major arguments on equality and efficiency that undermine the efficacy of a monopoly market, the factor market is also affected through monopolization. The monopolist in the product market is a monopsonist in the factor market. The factor market is plagued by monopolistic and monopsonistic exploitation. (Koutsoyiannis, 2003)

But before we provide our full support to the government's move to suppress monopolization we should also discuss the contentions in favor of monopoly markets. It has been proved by a number of studies that the loss in efficiency and welfare brought in by monopolization is but a negligible part of the total national output. (Kamerschen, 1971). Moreover in competitive markets a considerable amount of expenditure occurs in advertisement and promotional activities to increase the market share. This expenditure is unproductive in nature and even surpasses the super-normal profit of the monopolist. So the welfare-enhancing effect of a competitive market and the counter-efficiency effect of a monopoly market are overstated. Finally, it is also important to note that the higher returns generated by a monopoly market are generally reinvested for the expansion of productive activity that generates more output, employment and income for the economy.

References

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