

Perfect competition and the supply curve and monopoly

[Literature](#), [Russian Literature](#)



Perfect Competition and Supply Curve & Monopoly Natural monopoly has been an issue of concern for a long period. Depoorter (1999) indicate that a natural monopoly exists in an industry where a single firm can produce output at a lower per unit cost than two or more firms can. Electricity industry is a good example of such an industry. This kind of industry involves large investments and need for large productions become paramount. Therefore, the economics of scale becomes very important in this kind of an industry. According to Muharukua (2009), an economy of scale is the benefit a firm gains by increasing its business size hence lowering unit/average cost. For the electricity industry, increase in business can greatly reduce unit/average costs and that is why natural monopoly is popular in this industry.

In most cases, government might want to regulate natural monopolies such as this one. The regulations to be employed are direct legislation and administrative regulations of prices and entry into the industry (Joskow & Rose, 1989). Several reasons exist on why the government might do this. The two major ones are to prevent consumer exploitation and increase in the unit/average cost of production. Since, in natural monopoly there is absolutely no competition, the monopoly can sell its products at any price. This could result to consumer exploitation hence attracting the interest of the government to regulate monopoly. Moreover, since such industries have no competition, other investors might venture into it to break the monopoly. By doing this, they would increase the cost per unit hence rendering production uneconomical. The government will therefore step in to regulate their operations with an interest of saving the economy.

References

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