

Parking economics

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Parking Economics: Monopoly markets In modern times, a monopoly market describes the production of goods or services that have no close substitute.

Monopoly markets arise by ensuring that there is one supplier, protected from competition by barriers restricting entry of new firms into that market.

These restrictions include natural barriers, ownership barriers and legal barriers. A natural monopoly utilizes economies of scale to enable a single firm supply for an entire market at the cheapest cost. Ownership barriers occur when a firm owns large portions of a resource hence their ability to control production, price of the resource and price of the finished product.

Legal barriers restrict competition through methods such as patents or copyrights, public franchise and government licenses (Duffy 119).

Price discrimination and a single price markets are the two main price strategies utilized in monopolies. For most monopolies, low prices facilitate larger output; therefore, single price strategy is efficient in determining output and price. Single price monopoly involves selling its entire output unit at similar prices to all customers. This strategy builds on the flux in demand for goods. In an elastic environment, single price monopoly works best by increasing the production of a unit and reducing the selling price thereby, increasing marginal revenue that translates to profits. However, in a rigid demand market setting, fall of price in the output translates to decrease in total revenue. In such markets, monopolies reduce the number of units produced and increase the price of each unit. This will decrease the total cost but increase the income profits (Duffy 120).

In a perfect competition market, equilibrium occurs when the demand is equal to supply in regard to unit quantity and price. On the other hand,

equilibrium in a single price monopoly markets occurs when the marginal revenue and the marginal cost are equal. Monopoly equilibrium relies on a higher price smaller output strategy. Perfect market competition is more efficient than a monopoly market because the marginal social benefits and the marginal social costs are equal. This equilibrium describes the maximization of consumer surplus and producer surplus hence production of efficient output. Firms that run a monopoly are not able to get maximum outputs from the available inputs. In summary, marginal social benefit exceeds marginal social cost leading to dead weight loss. However, this discrepancy can be averted through rent seeking which is the process of redirecting the surplus from a single price monopoly market to create more monopolies (Duffy 124).

Price discrimination strategy involves selling different units of the same product or service for different prices. This strategy may seem unfair, but studies show that there is more equitable distribution of resources in a price discrimination monopoly than in a single price monopoly. This strategy also increases the profits of a firm in various ways. Through price discrimination among groups of buyer or types of goods, a firm captures surplus in the market and convert it into profit. Another method is perfect price discrimination that involves selling each unit at the highest possible amount consumers are willing to spend. Perfect price discrimination eliminates dead weight and increases the income profit. However, perfect price discrimination tends to increase rent seeking which leads to inefficiency of the price discrimination monopoly (McEachern 216).

Monopoly regulations work in relation to two main theories namely social

interest theory and capture theory. In natural monopolies, price and output is under regulation by marginal cost pricing rule that aligns the cost of output with that of marginal cost. As such, the quantity in demand is equal to marginal costs. Much as this rule ensures production of efficient output it results in losses for the firm. Firms have a number of options they can pursue, to cover these losses. One of them is seeking approval to price discriminate to recover from marginal cost pricing. A monopoly can also receive government subsidies from equal to the losses suffered. Average cost pricing can also mitigate these losses. However, this strategy has two regulations, rate of return and price cap regulation. Under rate of return, a firm justifies its prices by showing that they do not exceed any target rates. This may result in pummeling profits as the firm increases the price of its outputs. Under price cap regulation, the firm has a specified price at which its goods should not exceed. Under this rule, a firm can lower its prices but increase its production in order to maximize profit (McEachern 334).

Works Cited:

Duffy, John. Economics. New York: John Wiley & Sons, 1993.

McEachern, William A. Economics: A Contemporary Introduction. New York: Cengage Learning, 2011.