

A definition of monopoly economics essay



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Monopoly is an industry that has only one firm that sells a good which has no close substitutes. Monopoly firms also represent industries because there are no other firms in the market. Products that are from monopoly market are electricity, water, cable television, local telephone services and many more. Examples of monopoly firm in Malaysia is Tenaga Nasional Berhad, TNB's unique position as a monopoly in the generation, transmission and distribution of electricity in Peninsular Malaysia. TNB is the only firm that provides us electricity to every building in Malaysia. Another monopoly firm in Malaysia that only provide sewerage services is Indah Water Konsortium Sdn Bhd. Indah Water Konsortium is the only firm in Malaysia that mainly responsible for operating and maintaining the public sewage treatment plants and network of underground sewerage pipelines.

Characteristics of Monopoly Market

One seller and large number of buyers

Monopoly market characteristics are they is only one producer or seller in the market and there are many buyers. Therefore, the firm had the power to control the whole market whether it is from the angle of determining the price or the quantity of production. A monopolist has the power to determine the level of price because there is no competition from other firms.

Therefore, if the monopolist intends to sell a bigger quantity, it has to reduce the price. This means that the monopolist can only control the price or the quantity of sales, and not both at once.

No close substitution

Furthermore, monopoly firm's goods have no substitutes, it means consumers have no choice other than what is produced by the monopolist and they can't find any substitute of the product. For example, Telekom Malaysia is a firm that provides home telephone services which has no close substitutes but if the buyer can find another firm that provides home telephone service, therefore the product is no longer in monopoly.

Restriction of entry of new firms

All the competitors are prevented from entering the market due to strict barriers to the entry of new firms. To restrict the entry of new firms into the industry, there are barriers to entry that are natural or legal restrictions. There is no competition faced by the monopolist because of barriers to entry.

Advertising

A monopolist doesn't need to advertise their product or services to increase sales because the monopolist has the right to control the market and consumers know where to obtain the products and they have no choice to buy from other producers. Monopoly firms that provide local public utilities such as water, electricity and home phone services don't need to advertise since they are the only firms that provide it and customers have no choice to buy it from another firm.

Intro to Question 2

It is traditional to divide industries into categories according to the degree of competition that exists between the firms within the industry. There are four such categories.

First of all is perfect competition is the market where there is a large number of buyers and seller. The goods sold in the market are homogenous where most of the goods are alike and most likely the same. Therefore, sellers can easily enter and exit from the market. Most of the agricultural goods are included in perfect competition market such as vegetables, fruits, rice, coffee beans, wheat, primary commodities, gold, silver and others.

Second will be monopolistic is a market structure in which there are large numbers of small sellers selling differentiated products but these are close substitute products and have easy entry into and exit from the market. Most of the products in monopolistic competition are substitutes and the only differences of the products are such as branding. Unlike perfect competition, in monopolistic competition market, most of the products are different, but goods are close substitutes for one another. Products that are under monopolistic competition are shoes, clothes, books, watches, toothpastes, soaps, ice creams, chocolates and many more.

Next will be oligopoly, where it is a market structure in which there are only one firms selling either standardized or differentiated products and it restricts the entry into and exit from the market. Due to difficult or impossible for new firms to enter the market, most of the firms in oligopoly market can earn abnormal profits in long run. Examples for this market are cigarettes, automobiles, electrical equipment and cement

Lastly monopoly, where it is only exists when an industry or market has only one producer. Most of the public utility firms are in monopoly market.

Features of the four market structures

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Type of Market

Number of Firms

Freedom of entry

Nature of product

Examples

Implication for demand curve for firm

Perfect competition

Very many

Unrestricted

Homogeneous

(Undifferentiated)

Cabbages, carrots, local farmer (these approximate to perfect competition)

Horizontal. The firm is a price taker.

Monopolistic competition

Many/several

Unrestricted

Differentiated

Builders, restaurants

Downward sloping, but relatively elastic. The firm has some control over price

Oligopoly

Few

Restricted

1. Undifferentiated

2. Differentiated

1. Cement 2. Cars, electrical appliances

Downward sloping, relatively inelastic but depends on reactions of rivals to a price change

Monopoly

One

Restricted or completely blocked

Unique

Public utility

Downward sloping, more inelastic than oligopoly, The firm has considerable control over price

Comparison of Perfect Competition and Monopolistic Competition

Similarities

There are large number of firms in both markets. Seller from both markets are easily enter and exit from the market. The firms maximizes profit when MR is equal to MC . Firms from both market may earn economic profit or normal profit or incur losses in short run. While in long run, perfect competitive and monopolistic competitive firms earn only normal profit.

Differences of Perfect Competition and Monopolistic Competition

The forces of demand and supply for the entire industry determine prices in the perfect competition market. While, in monopolistic competition market, every firm has its own price policy. It can be concluded as perfect competition firms are price takers and monopolistic firms are price makers. A perfect competitive firm sells homogenous products while monopolistic competitive firm sells product that are differentiated product. Product differentiation may lead monopolistic competition in selling cost. There are large number of firms that are in perfect competition while only fairly large number of firms in monopolistic competition. A perfect competitive firm's demand curve is perfectly elastic and MR curve is equal to average revenue curve but in monopolistic competitive firm, the demand curve is downward sloping and MR curve is also downward sloping, which lies below the average revenue curve.

Differences of Oligopoly and Monopoly

Oligopoly is a market structural in which there are a few number of firms in the industry that produce either identical or differentiated product.