The market structure of a monopoly

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Monopoly is a market structure where there is only one firm in the industry. In fact, there are many factors leading to an occurrence of monopoly, such as barriers to entry. However, barriers must be high enough to block the entry of new firms under the situation of monopoly.

I would like to start with economies of scale. Economies of scale occur when increasing the scale of production leads to a lower long-run cost per unit of output. The industry may not be able to support more than one producer if a monopoly experiences substantial economies of scale. This is known as natural monopoly. It is particularly likely if the market is small. For example, two airport connecting services, Heathrow Express and Heathrow Connect, might find it unprofitable to serve the same routes, each running with perhaps only half-full trains, whereas one company with a monopoly of the routes could make a profit. Even if a market could support more than one firm, a new entrant is unlikely to be able to start up on a very large scale. Thus a monopolist already experiencing economies of scale can charge a price below the cost of the new entrant and drive it out of the business. If, however, the new entrant is a firm already established in another industry, it may be able to survive this competition.

Moreover, I would like to talk about legal protection. The firm's monopoly position may be protected by patents on essential processes, by copyright, by various forms of licensing and by tariffs and other trade restrictions to keep out foreign competitors. Examples of monopolies protected by patents include most new medicines developed by pharmaceutical companies, Microsoft's Windows operating systems, and agro-chemical companies, such as Monsanto, with various genetically modified plant varieties and pesticides.

Lastly, lower costs for an established firm. An established monopoly is likely to have developed specialised production and marketing skills. It is more likely to be aware of the most efficient techniques and the most reliable and/or cheapest suppliers. It is likely to have access to cheaper finance. It is thus operating on a lower cost curve. New firms would therefore find it hard to compete and would be likely to lose any price war.

Question 2

The zippers market fits the monopoly model. YKK is the world largest zipper manufacturer. It produces more than 50% of the zippers in the industry, which dominates the zippers industry. YKK makes around half the world's zip fasteners by value. However it also manufactures other fastening products, architectural products, and industrial machinery. As we can see in our daily life, simple logo consisting of the letters " YKK" adorn many of the zippers on the products we own and use everyday. YKK is a global company manufacturing global product. There is no doubt that we own many items in our life with the YKK zippers like handbags, hoodies, jeans, trousers, purses and jackets, etc. YKK is a market leader in fastener sales and distribution; it is hard to think that their domination in the fashion and clothing industry will diminish any time soon.

However, fastening products are the most important product of YKK. There are different types of products in YKK, and it is distinguished as the Slide Fastener Division, the Textile and Plastic Products Division, the Snap Fastener and the Button Division. There are different types of zippers as well, such as metal zippers which is extra durable for jeans, metal zippers which is

polished for visual appeal and corrosion resistance, metal zippers which is polished and plated for visual appeal with different colours, the plastic coil zipper with no visible teeth and the rugged plastic zipper. There are also some hook and loop products, plastic clips and buckles and snaps and buttons including snap fasteners and jeans buttons.

With all these products, it can show that YKK possesses a wide range of products in order to maintain its dominance in the zipper industry.

Question 3(a)

Natural monopoly is a situation where long-run average costs would be lower if an industry were under monopoly than if it were shared between two or more competitors. A natural monopoly exists when economies of scale are so substantial that a single firm can produce total business output at a lower unit cost, and thus more effectively than two or more firms. In effect, the long-run average costs are falling over such a wide range of production rates relative to demand that only one firm can survive in such an industry. A more specific criterion is the subadditivity of the cost function.

It is formed by the natural need of industrial development. Generally, economies of scale will lead to natural monopoly, for example, some public constructions that supply water, gas requires a huge amount of investment, the affected area is usually broad but the profit is not excessively high. The typically quoted examples of natural monopoly are utilities and transport. For example, a multi-wrap running water pipeline or electric power telecommunication line to be set up in one area is obviously wastage. It is also a natural monopoly in this case. Besides, when a laundry is able to

satisfy the demand in a little village, it is also called natural monopoly. Also, for some high technology product, as it acquires technical research and development ability, only one or few factories may be able to produce the product in a certain time, this may lead to natural monopoly as well.

Question 3(b)

The reasons why a natural monopoly has to be regulated are as follows:

First of all, unregulated competition usually produces poor results according to many economic arguments. They produce disappointing services with high prices, and industry instability. The arguments are usually about proper invention, the quality of service and the price.

The investment of a firm may be appropriated if they are not protected, apparently by the government regulation when a government is using the proper invention argument. For the quality of service, it states that an industry may suffer from the competition between companies as they may struggle between prices instead of quality of services. However, this does not mean that the government franchise and regulations are the only ways to work put the problems. There are more efficient ways to protect the rights and ownership of the companies investing or offering the services, such as patents, copyrights and brand names. Yet, the government may take part in enforcing the ownership of patents, copyrights and brand names but their intervention will be minimised.

Question 3(c)

Natural monopoly gives rise to a potential conflict between cost efficiency and competition, with an increased number of competitors leading to some loss of scale efficiencies. It is important to note that regulation of natural monopolies also occurs for reasons other than market failure. In fact, many real life regulations have been motivated by the concern for dynamic efficiency, distributional considerations and other considerations, including even ‘ moral’ considerations-such as fairness. The most important challenge is technological progress, which changes the cost curves, hence enabling countries to re-examine the hitherto characteristic forms of natural monopoly regulation, i. e. price and entry regulation, based on the concept of natural monopoly.

Question 4

Competition Law are laws that promote or maintain market competition, distribute the public resources in the best place, enable consumer to use the lowest possible price to obtain the best, newest and broadest variety of goods and services by regulating anti-competitive conduct. There are different clauses listed in the competition law of different countries such as price fixing, merger review and abuse of dominance.

In the case of Sky Broadcasting, it is not allowed to purchase the Manchester United Football Club as it may restrict free trading and competition between different companies in the industry. In UK, Sky Broadcasting is a pay TV channel. As a result, if Sky Broadcasting purchases the Manchester United Football Club, it may be able to intervene the process of getting the broadcasting right of the World Cup. In order to avoid this, the British

government prevented Sky Broadcasting from purchaasing the Manchester Football Club and maybe try to secure the chance of getting the broadcasting right for other broadcasting companies to maintain competition.

On the other hand, the reason why Boeing was given permission by the US government to buy McDonnell Douglas may be as follows:

Economies of scale: When increasing the scale of production leads to a lower long-run cost per unit of output. As a result, merging of the two companies is likely to be benefited from the economies. Production costs can be lower and this can help to earn more profit. The monopoly may be able to achieve substantial economies of scale due to larger plant, centralised administration and the avoidance of unnecessary duplication.

Division of labour: As the size of the company expands, division of labour is needed and it can be worked more efficiently.

Market leader: The merging of the two companies will make Boeing to become the market leader in the industry. Boeing can then be benefited from being a market leader as it can set the market price for other companies to follow.

Furthermore, I would like to analyse the pros and cons about the takeover of the Manchester United Football Club.

Firstly, if Sky Broadcasting purchases the Manchester United Football Club, it may then be able to secure their broadcasting right over the Premier League football games. As a result, those who wants to watch live football matches

on television had to sign up with Sky, buying both a basic package and the additional Sky sports channels; Sky thus had a monopoly. Therefore, this is potentially a very lucrative source of revenue and thus benefit the government as it may contributes a huge amount of taxes.

However, the government intervention in this case may be against the public interest. As if Sky Broadcasting is banned from purchasing the Manchester United Football Club, it is more unlikely to become a monopolist in the industry. As a result, the available packages of broadcasting the football games may be spread out. Audience may suffer from this situation as fans wishing to watch all of them would have to buy more than one packages.

Under this situation, Sky Broadcasting and the government will both be the winners and the football fans and consumers will be the losers.

In the other case, there are some advantages and disadvantages over the merging of the Boeing and McDonnell Douglas.

First, as I mentioned before, Boeing may be benefited from economies of scale, devision of labour and being a market leader.

However, Boeing may become a monopolist in this case as it is the world’s premier commercial jetliner manufacturer because of its complete focus on airplane operators and the passenagers they serve. As a result, other jetliner manufacturer may suffered from this situation as Boeing will get the most benefit in the industry, which contributes more taxes to the government.

On the other hand, the airline companies may suffer as they do not have many choice but Boeing when they buy aeroplanes. This may also lead to an increase in price of flight tickets.

To conclude, Boeing and the government will be the winners in this case. Unfortunately, consumers and airline companies will be the losers.