

Government intervention in firm action



Monopoly is a situation where there are limited resources and it is only owned by a firm or an organization. This will lead to the firm to be the only source to get the desired services or goods. Firm will have the total authority in price fixing and all that related.

Monopoly has always been incorporated with negativity. Whenever the word monopoly arises, people will have the idea that it will somehow be burdensome and it is the public that will suffer the most out of it. Monopoly has its own pros and cons to the market and the people. Not in all cases it gives a negative effect. It can sometimes still be positive.

In the case of Malaysia, there are a few important firms that regulate with people's daily needs are monopolists. They are the sole supplier of the services or goods needed by the public. For example, Tenaga Nasional Berhad (TNB). According to Walter J. Primeaux, Jr., in his written article, electric utilities have been considered neutral monopolies for many years. Although they are monopolists, they are still under the government inspection and there are a few interventions from the government in order to cater the public's welfare.

As we know, the electricity of the nation is solely provided by TNB and the same goes for home line telephone service that is generated by TM. These two firms are mega firms that are monopolists and are the closest to the public. They cater the needs and at the same time still gain profit.

RESEARCH BACKGROUND

Monopolies firm are defined by these few characteristics such as single supplier, unique product, barriers in and out of the market and specialized

information (<http://www.AmosWEB.com>, AmosWEB LLC, 2000-2011). These characteristics are what differentiate the monopolies firm from the other firms.

This research will look into the difficulties that the monopoly firm faces as the only sole provider of goods and services at one time. There are technical issues that they need to consider such as tariffs and price fixing that at the same time needs to consider the welfare of the public. We will try to look into this matter and find out the real deal that they face.

Next we will have a look at the positive and negative side effect of monopoly firms to the society. We will try to have a deeper understanding on the pros and cons of monopoly firms. Is monopoly always a bad thing for the society or are there still positive gains from the monopolies firm that are being executed.

Lastly, the research will then focused on the intervention by the government that are done to curb the monopoly firms from taking advantage and gain more profit out of the activities done by the firm.

LITERATURE REVIEW

PROBLEM STATEMENT

Monopoly is always a subject that brings a lot of interest to various parties; the people, the market and government itself. The magnetic force of monopoly is something that should be reckoned as it plays a major role in our society. It is closest to us than anyone ever know.

We have made it clear that the sample of our research will be Tenaga Nasional Berhad. This firm are two mega firms that supply the most essential needs of people in the nation. By not having this giant firm, the nation will be dark.

As time passes, people seem to forget that these two are monopoly firms. This is due to the fact that although they are monopolist, they still care. They still carry out their responsibility to the public in a very mannerly way. That is why they are often disregarded as monopoly.

The problem faced by the monopoly firms also are usually being neglected by others. The fact that they are the only sole provider of the services, they need to be very careful in their every step as a mistake can cost them major loss.

Intervention is another issue that we would like to highlight as these firms are close to the people. They provide them with the essentials. Therefore to maintain them and ensuring that they function properly and mannerly is by far more important than any other objectives of the firms.

RESEARCH OBJECTIVES

The purpose of this research is to have a better understanding of monopoly in various aspects that are from the view of firms, consumers and the intervention from the government on monopoly firms. There are a few objectives that we have outlined for this research. The following are the objectives that we have identified.

To study the burden of monopolies firm.

It is known that every firm is ought to face problems in conducting their activities. This research will look into the significant problems faced of the monopolies firm.

To study the effects of monopolies to the society.

Public will always have a negative thought to monopolies firm. They will always have this general idea that monopolies firm will cause them a lot and be a burden to them. From this research we will try to prove that monopolies firm still have it positive effect to the society.

To study how government intervention controls monopolies firm.

From the sample that we use, the monopolies firm are closest to the user. They are the main sources of distributor and they are the only sole provider of the service. Therefore intervention from government is necessary to prevent them from manipulating the public and the market.

RESEARCH METHODOLOGY (DESIGN)

In this research, the most suitable data to be used is secondary data. Most of the sources that we refer to are from journal articles. We surf the net to find reliable journals and article journals that are related to the topic that we have chosen that is monopoly.

Specifically, we use Tenaga Nasional Berhad (TNB) as our sample of study. As most of the sources are from journals and article journals, it is best to use theoretical framework as our method to prove the hypothesis and fulfil the objectives.

The sources of information that we gather are from the literature review. These sources are then being tested on the sample to define whether they are monopolies firm or not. Furthermore, we are going to see various views on monopoly from the perspectives of consumers, firms and government intervention. After all been done, we will find out whether the hypothesis outline is acceptable or not.

EXPECTED RESULTS

The negative connotations of monopolies firm has been in the mind of the public for so long. Yes the monopolies firm can be manipulative at times, but in the case of our research, it has proven that the monopolies firm brings positive benefits to the society in a major way.

The sample that we have chosen; Tenaga Nasional Berhad and Telekom Malaysia, has been the sole distributor in Malaysia for quite some time. These long time mega firms have proven that monopolies firm are not always evil and manipulative.

Back to the objectives of our research, we expect to study the burden of the monopolies firm in the eye of the firm itself. From the data gained, there are a few problems that monopolies firm faces. Among the often problem are such as price discrimination, price maintenance, commodity bundling, and scarcity of source.

However, the problem of monopoly is way beyond all that. The thought that monopolist have the total power over price fixing is totally absurd.

Monopolists generates surpluses that the firm itself cannot fully appropriate[1]. As that being said, the surpluses that they gained are not

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available if they were to cease their production. The gains that they receive are actually a divergence of profits and also social contributions. This proves that monopolist is not only about taking advantage of the market and manipulating it. The graph below shows that the monopolists' benefits are much less than the total benefits gain.

This finding has shown that monopolies firm too have their own liability that they bare in order to provide social benefits to the society. Indirectly this has managed to fulfil our second objective. This proves that monopolies do not always pose burden to the society. The graph also show that it is difficult to take advantage of the market as the divergence is clearly shown.

Next up, the question of efficiency of monopoly firm is always being brought up. In the case of our sample, Tenaga Nasional Berhad (TNB), it is vital for the firm to keep the operational efficiency. Though many other external factors such as the rise in price of raw materials that can contribute in the fluctuations of efficiency, this is another problem that monopolies company faces.

TNB themselves experience this when they were a rise in the price of fuel. They solely absorb the cost that made up quite a large portion in their operating cost.[2].

As a monopolist, TNB act as a price taker to the commodity and tariff charges. Therefore any changes of price of commodity in the market, they are not able to revise the tariffs and price structure. They are caught in the middle. This lead to them having to absorb additional cost yet needing to remain the same amount of supply. This shows that what we basically

expected in the beginning of the research, where monopolies firm tend to burden the public is not true in all cases.

Lastly, the objective of this research is to see how government intervention really controls the monopolies firm action. As we know, there are regulated bodies that monitor the every step of a monopoly firm especially when one is like Tenaga Nasional Berhad. It is closely monitor so that it does not violate what it is suppose to deliver. Electricity is essential to any part of the world. Here in Malaysia, TNB is authorized to be the one handling the matter.

In the previous paragraph, we did mention that the tariffs of the firm are not able to be revised even though there is an increase in the price of commodities. Sudden increase such as the increase in the price of fuel should actually means that the firm can set a new tariff as there will be an increase in the cost that they have to bare.

This can be seen in the scenario at the end of the year 2010, when TNB President and CEO reported that they seem to still be able to absorb the cost of the rise in fuel but if the rise seems to be continuous the result is going to hurt the firm[3]. The same report also states that if there is any review, TNB needs to justify with the government in order to hold any discussion related to the new tariffs review. Here we can see the intervention from government in order to curb the firm from fixing any price they desire.