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Economics effects of monopoly. In pure monopoly, a monopolist will charge a higher price compared to the firms in purely competitive industry. They also sell a smaller level of output than the firms that involve in pure competition. Compared to pure competition, monopoly is inefficient in both productive and allocative efficiency. In purely competitive industry, the entry and exit of the firms will ensure that the P = MC + min. ATC. However, for pure monopoly industry there is no entry and exit of firms as it is conquer by only one party.

The marginal revenue (MR) curve lies below the demand and the produces output where MR = MC, so, the price exceeds the marginal costs (MC) and also exceeds the lowest average total cost (ATC). Pure Competition Pure Monopoly Price Price Quantity Quantity Pc D D Qc S = MC Pc MC Qc MR Qm Pm P = MC = min. ATC MR = MC Figure [1]: Comparison of pure competition and pure monopoly. Looking at the chosen firm which is TNB, as In pure monopoly, there is an efficiency loss which is called dead weight loss (also known as excess burden and allocative efficiency).

This situation occurs because the sum of consumer surplus + producer surplus is less than the maximum. In other words, this situation occurs either because of the people who have more marginal benefit than marginal cost are not buying the product, or those who have more marginal cost than marginal benefit are buying the product. Income transfer Monopoly wills increases income inequality because the profits are not equally distributed. Monopoly will cause the transfer of income from consumers to the stockholders who own monopoly.

This can be seen through levy of “ private tax” on consumers. The owners will gain benefit at the expense of consumers. Cost complications In pure monopoly, the costs may vary because of four factors: 1. Economies of scale According to www. bized. co. uk , economies of scale is the advantages of large scale production that result in lower unit (average) costs (cost per unit). Some firms reach large economies of scale because of specialized input, the spreading of product developing costs, simultaneous consumption and network effects.

Simultaneous consumption is the ability of product to satisfy a big numbers of consumers at the same time and network effects are increase of value of product to each consumer. 2. X-Inefficiency X-Ineffiency is when the firms produce level of output that is higher than the lowest ATC. X-Inefficiency occurs due to poor management decisions, principal agent problem, poor workermotivationor ineffective supervision as the results of reliance on “ rules of thumb” instead of real costs or revenue decision. Figure [2]: X-Inefficiency 3. Rent seeking expenditures