

# [What happens to a monopolys revenue when it sells more units of its product](https://assignbuster.com/what-happens-to-a-monopolys-revenue-when-it-sells-more-units-of-its-product/)

Economics August 20, What happens to a monopoly’s revenue when it sells more units of its product? A monopoly is a type of amarket structure. A market is any place (real or virtual) where buyers and sellers exchange goods, services or ideas. Market structure defines the characteristics of the market. Examples include the number and concentration of buyers and sellers, level of competition, existence of product differentiation etc. There are three market structures other than a monopoly, these include: perfect competition, oligopoly and monopolistic competition.
A monopoly is a market which has only one seller. Although it is difficult to pinpoint a pure monopoly in this world of increased consumer awareness and consumer protection, but a close example can be utilities such as water, electricity etc. in a country or Microsoft in the personal computer market. Since there is only one supplier in the monopoly market, therefore the demand curve of the single supplier is the market demand curve. The monopolist will set his quantity at a level where the incremental revenue earned by selling one unit, i. e. marginal revenue is equal to the marginal cost, i. e. incremental cost of producing one extra unit. The price will be set equivalent to the average revenue at that quantity. Lack of competition allows the monopolist to earn an economic profit. This is shown graphically on the next page.
When the number of units sold increases the revenue increases; primarily because the supplier is the only one in the market and there is little option available to the consumers. However, as the price increases, the elasticity of demand for the product increases (becomes more elastic; as shown by the demand curve D) and the demand starts to decline more than proportionately to the change in price. If the decline in demand is more than the increase in price, then the seller’s revenue would decrease. Given the income distribution in a society, there is a limit to the number of units that can be sold at a high price and if the seller intends to sell more units, then he must lower the price of the goods/services.
Works Cited
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