SNS COLLEGE OF TECHNOLOGY

AN AUTONOMOUS INSTITUTION

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COIMBATORE

DEPARTMENT OF MECHANICAL ENGINEERING

19MEE301- ENGINEERING ECONOMICS AND COST ANALYSIS

IV YEAR / VII SEMESTER

Unit 2 : Demand and Schedule

Topic 9 : Monopoly and Monopolistic Market

Monopoly Market

- A *monopoly* (from the Greek word "mono" meaning single and "polo" meaning to sell) is that form of market in which a single seller sells a product (good or service) which has no substitute.
- Monopoly market is one where, there is a **single seller** of a product with **the barriers to entry for others.**
- The product has **no close substitutions**.
- this means that

'no other firm can produce similar product, the firm is a

price maker & the **demand curve is inelastic ($e<1$).**

For exp- Railways (only govt. has the right)

Features of Monopoly Market

- Only **one single seller** in the market. There is no competition.
- There are **many buyers** in the market.
- The firm enjoys **Abnormal profits**.
- The product does not have **close substitutes**.
- There is **no difference** between a firm and an industry.
- There are **barriers to entry** of other firms in the area of monopoly.
- The sellers controls the prices in that particular product or service and is the **price maker**.
- Consumers don’t have **perfect information**.
- Pure monopoly is **not formed** in the real world.

TYPES OF MONOPOLY

Legal Monopoly

- Created by the laws of a country in the greater public interest
- To prevent disparity in distribution of wealth, or imbalanced growth of the economy

Economic Monopoly

- Created due to superior efficiency of a particular player
- Attainment of economies of scale leads to monopoly, often referred to as an "innocent" or a structural barrier
- Technical know-how restrained in the hold of single firm

TYPES OF MONOPOLY

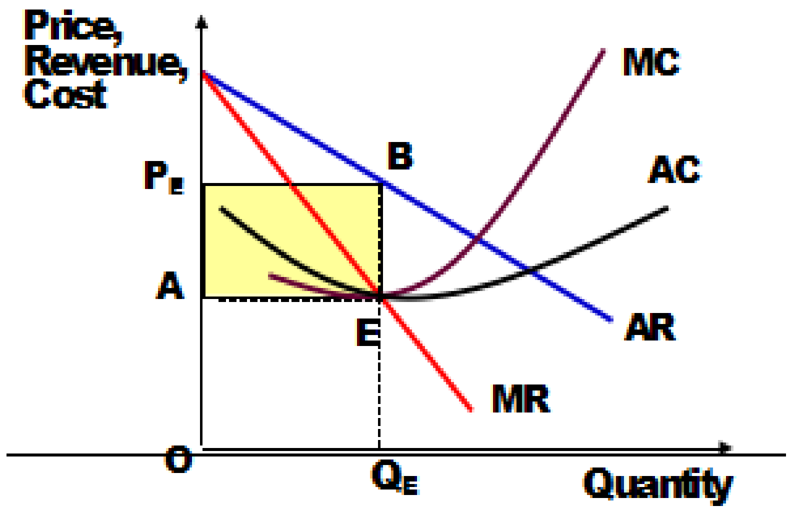
Natural Monopoly

- Formed when the size of the market is so small that it can accommodate only one player.

Regional Monopoly

- Geographical or territorial aspects also help in creation of monopolies.

Price Determination Under Monopoly Market (Short run:Supernormal Profit)



Firm maximizes profit where
(i) MR=MC (ii) MC cuts MR from below, at point E.

Equilibrium price=OP_E, Output= OQ_E

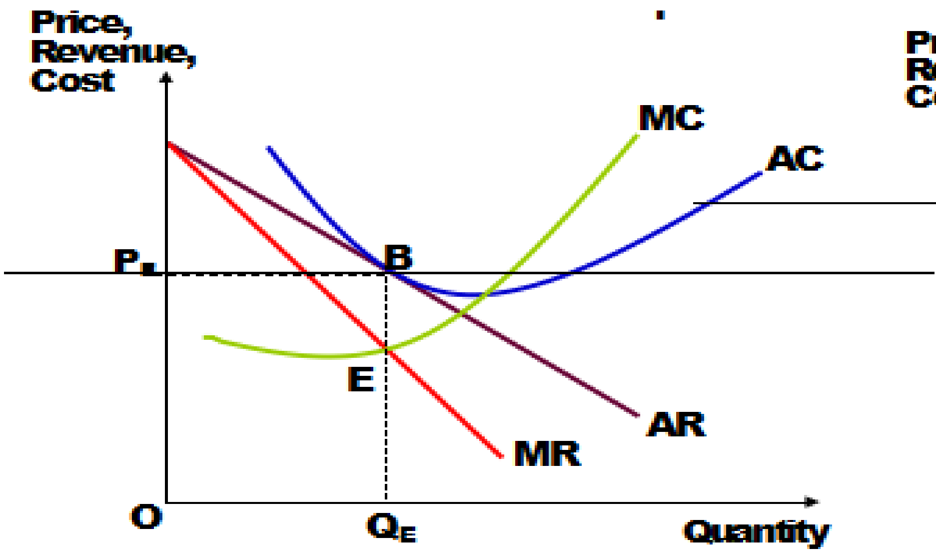
Total revenue =OP_EBQ_E

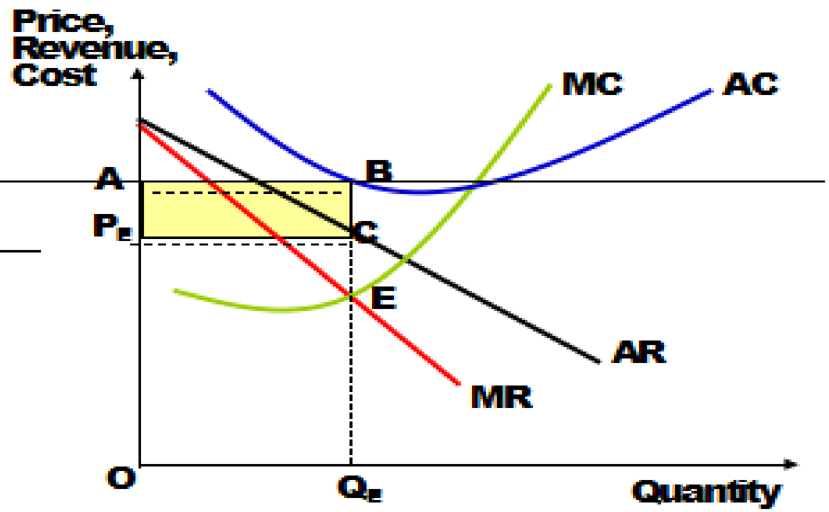
Total cost = $OAEQ_E$

Supernormal profit= $AEBP_E$, since price $P_E >$ Average cost

- In order to maximize profit a monopoly firm follows the rule of MR=MC when MC is rising.
- A monopoly firm may earn *supernormal profit* or *normal profit* or even *subnormal profit* in the short run.
- In the short run, the firm would reap the benefits of supplying a product which not only is unique, but also has negligible cross elasticity.

Price Determination Under Monopoly Market (Short run:Normal Profit, Loss)





Total revenue= OP_EBQ_E

Total cost = OP_EBQ_E

Profit = Nil

Firm makes **normal profit.**

Total revenue= OP_ECQ_E

Total cost = $OABQ_E$

Loss = $ABCP_E$

Firm makes **loss.**

Monopolistic Market

- This is the market where, there are **many firms** selling different products. There is a competition which is keen though not perfect among many firms, making very **similar products**.
- No firm can have any perceptible influence on **price output** policies of the other sellers nor can it be influenced much by their actions.
- Thus monopolistic competition refers to the **competition among** a **large number of sellers** producing close but **not perfect substitutes** for each other.

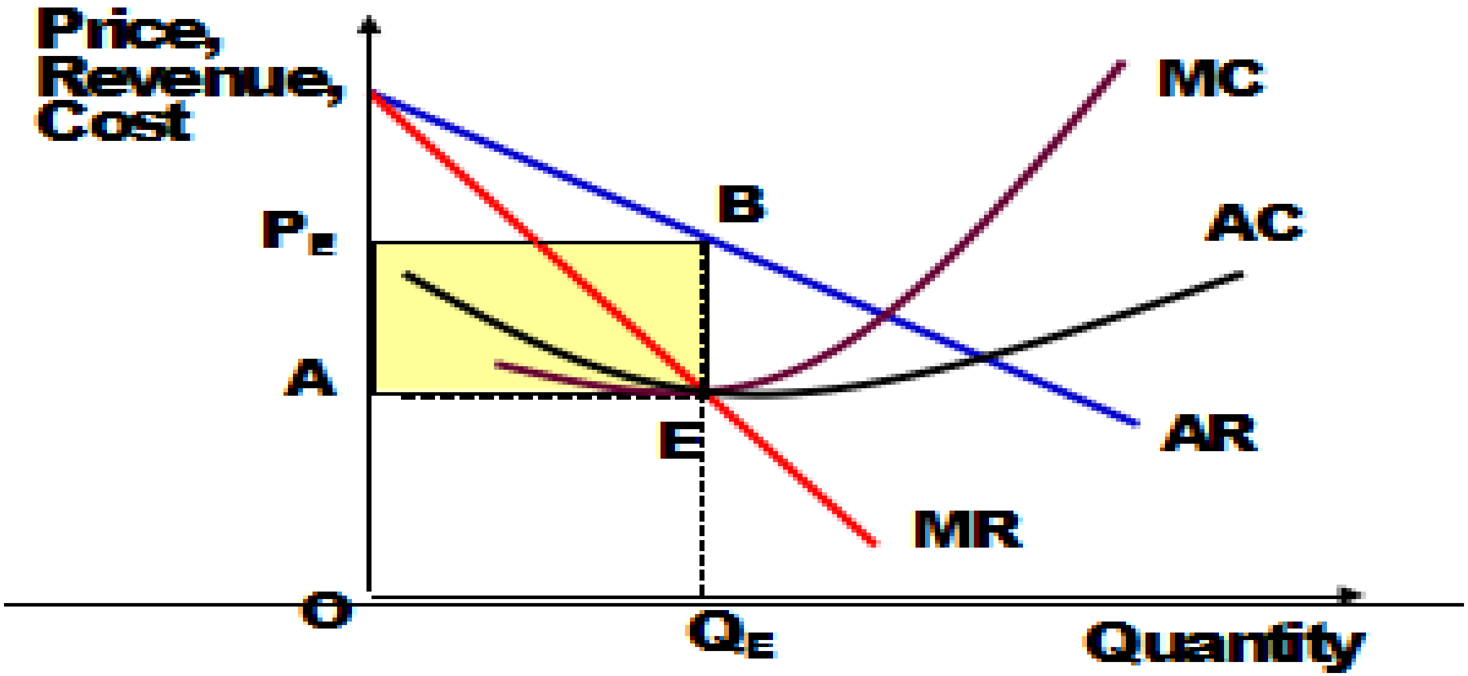
Features of Monopolistic Market

- **Large numbers** of sellers.
- **Large numbers** of buyers.
- **Freedom of entry** and exit.
- **Heavy competition**.
- Product **differentiation**.
- **Selling cost**.
- Lack of **perfect knowledge**.
- **Pricing decision**.

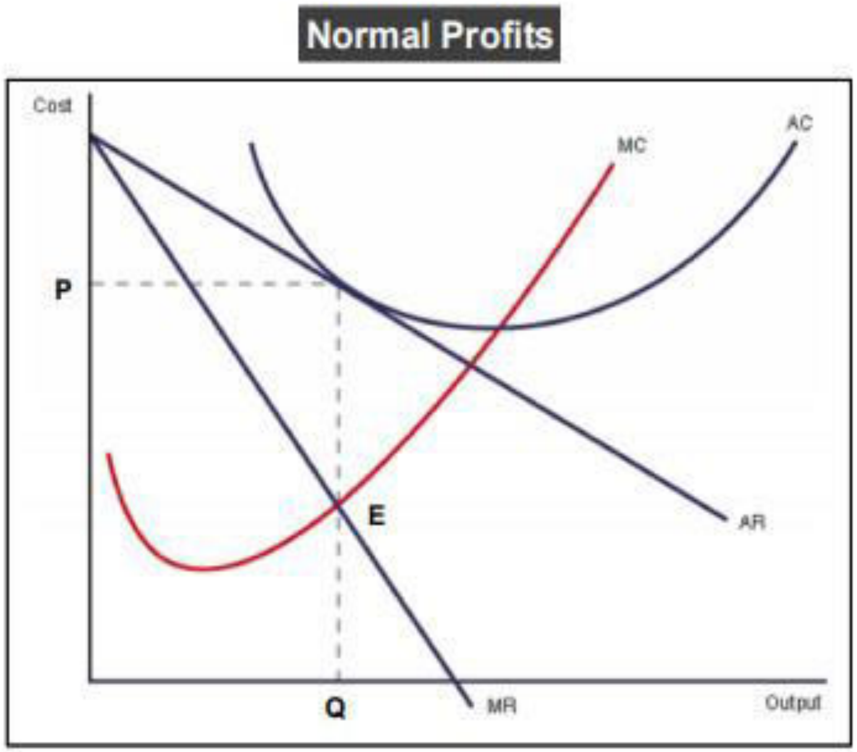
Price Determination Under

Monopolistic market:(short run equilibrium)

- **Supernormal/Abnormal profit:**

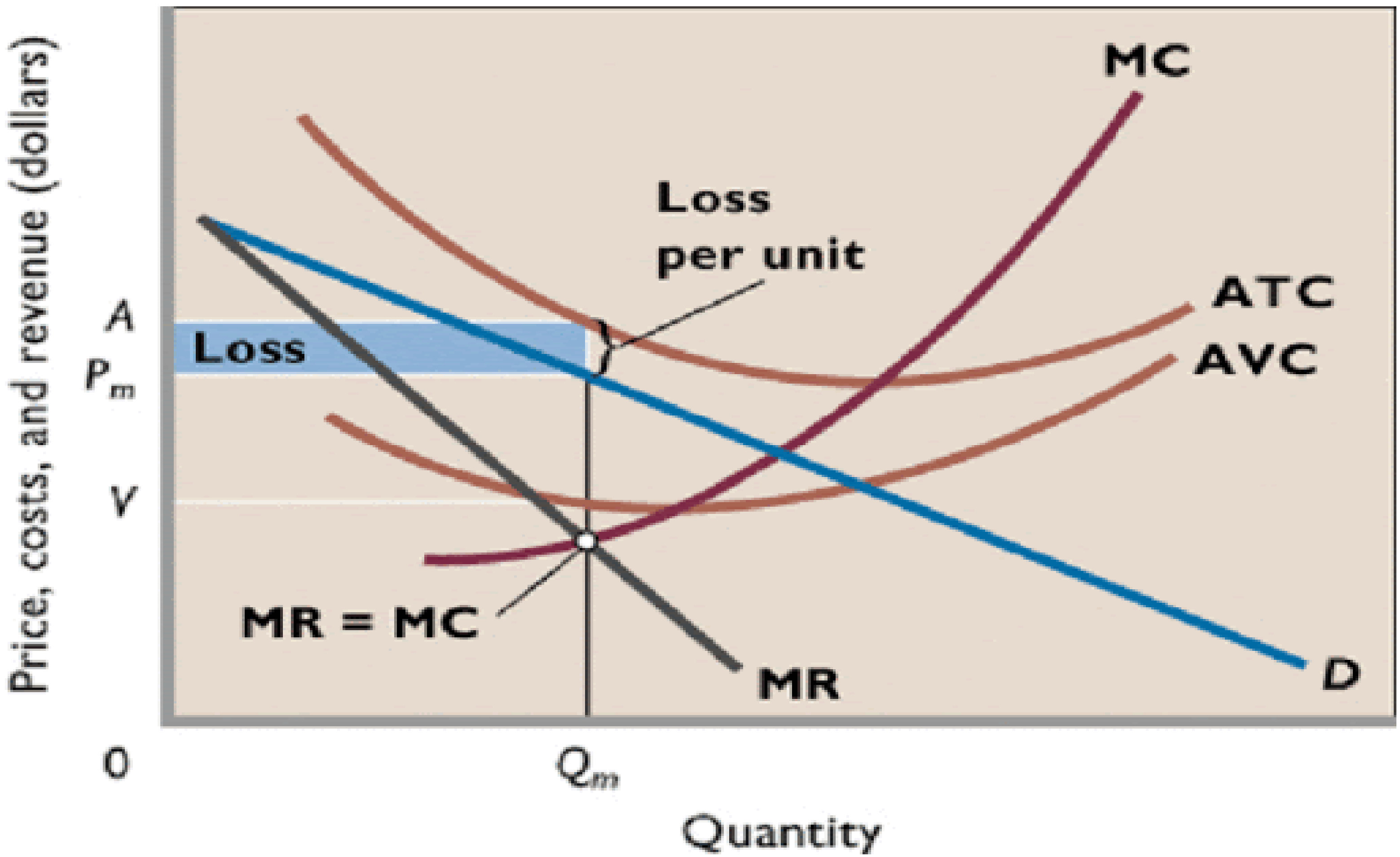


Normal profit



D = Market Demand
AC = Average Total Cost
MR = Marginal Revenue
MC = Marginal Cost

Minimum Losses



Long Run Equilibrium Of The Firm

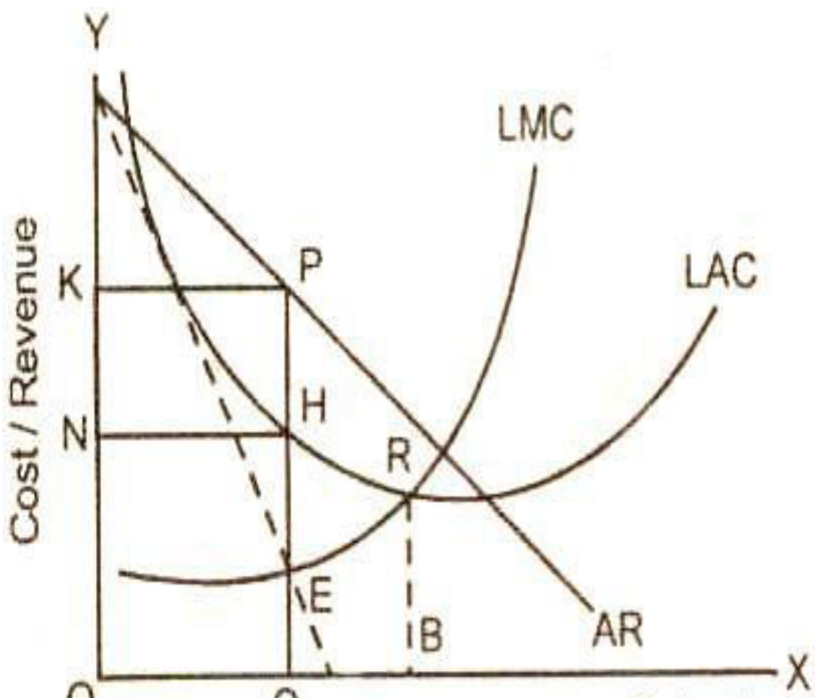


Fig.16.6

- In this market it only lead to the existence of only **normal profit**.
- In the long run, no firm can **earn supernormal profit or incure losses**. Because each of them products a similar product.
- **Thus in the long run all the firms will earn only normal profits.**

Difference between Monopoly & Monopolistic Market

Monopoly Market

- There is only one producer of a product
- There is no difference between firm and industry.
- there is no product differentiation.

Monopolistic Market

- there are a large number of producers.
- there are many firms, and the industry is called a group.
- every producer produces differentiated products.

Contd.,

Monopoly Market

- There are no selling costs.
- Different prices from different customers for the same product.
- No close substitutes of the product.

Monopolistic Market

- Expenditure on selling costs is essential.
- Price discrimination is not possible.
- Products are close substitutes.

Any Query…..

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Thank You!!