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MONOPOLY

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Abstract: Market is the most important place where seller and buyers meet each other and exchange commodity. In absence of market the economic growth of society goes down. Therefore a well-planned marketing is very important for the growth of country. Monopoly marketing is one of the important forms of market. In monopoly marketing there is only one seller who produces and sells a commodity which does not have a close substitute. There are many barriers for entering monopoly market. It is firm as well as industry. Example of monopoly market, In Saudi Arabia, the government has sole control over the oil industry; similarly in India government has full control over railways. So they both come under monopoly marketing as there is no close substitute of oil and railways. Similarly 76% of economic growth of a country is fully based on monopoly market.
Keywords- Monopoly, Commodity, Barriers, Substitute

I. INTRODUCTION

Monopoly derived from Greek word “Mono” means “single” and “polein “means “seller”. It is that situation of market in which there is a single seller of a product with no close substitutes in the market.Examples:-

1) There is only one firm dealing in the sale of cooking gas in your town. You get your electricity supply from one agency, i.e., Electricity Board.
2) You can travel by railways owned, controlled and run by Government of India alone.

A. Features Of Monopoly

The main features of monopoly are as follows:

1) *One seller and large number of Buyers:* under Monopoly there should be a single producer of a commodity. He may be alone or there may be a group of partners or a joint stock company or a state. Thus, there is only one firm under monopoly. But the buyers of the product are in large number.consequently, no buyer can influence the price of the product.
2) *Restriction on the Entry of the New Firms:* Under monopoly, there are some restrictions on the entry of new firms into monopoly industry.
3) *No close Substitutes:* A monopoly firm produces a commodity that has no close substitutes.
4) *Full control over Prices:* Since firm alone produces the commodity in the market, a monopolist has full control over its price. A monopolist thus, is a price maker.
5) *Possibility of Price Discrimination:* Many a time, a monopolist charges different prices from different consumers. It is called price discrimination.

II. DEMAND CURVE

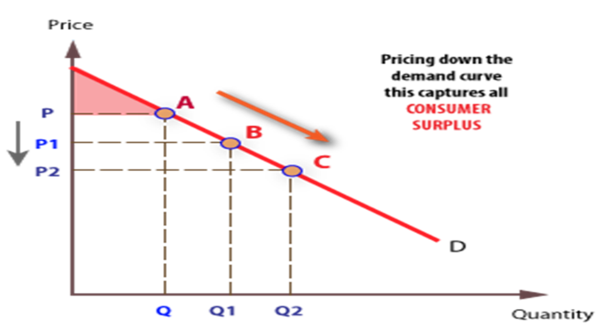

Fig. 2.1Figure shows the demand curve for a monopoly firm.

III. MONOPOLY MARKET STRUCTURE ARISE

Monopoly market structure may arise in any of the following ways:

A. *Government Licensing/ Government Control:* The government may grant license for the production of a particular commodity only to one producer. Accordingly, monopoly comes into existence. Also, the government may decide to control the production of certain goods exclusively through its departmental undertakings, like Railways in India.

B. *Patent Rights:* New products may secure patent rights. It amounts to monopoly rights regarding the shape, design or other characteristics of the product. Likewise, patent rights may be secured on new technology which prohibits the use of patented technology by others.

C. *Cartels:* It refers to collective decision making by a group of firms with a view to avoiding competition and securing monopoly control of the market. Competing firms may reach a broad agreement on the pricing and output policy so that competition is avoided and a sort of joint monopoly structure of the market emerges.

D. *Natural Occurrences:* Monopoly may exist as a natural phenomenon. The only spring of water in an island, for example, may be under the control of one person who exercises full control over price of water, without any competition.

IV. EQUILIBRIUM UNDER MONOPOLY

Condition of Equilibrium: A monopoly is in equilibrium when he produces the amount of output which yields him maximum profit.

Profit is Maximum when:

1. Marginal cost =Marginal Revenue
2. Marginal cost curve cuts marginal revenue from below under increasing cost condition as shown in the figure.

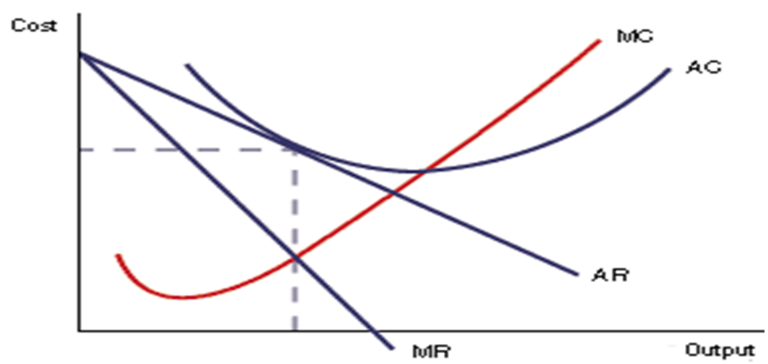

Fig. 4.2.2 Equilibrium under Monopoly is classified into two categories:

a. Short Run Equilibrium
b. Long Run Equilibrium

Short Run Equilibrium is further classified into three categories i.e.

A. Short Run Equilibrium in Super Normal Profit
B. Short Run Equilibrium in Normal Profit
C. Short Run Equilibrium in Losses

A. Short Run Equilibrium in Super Normal Profit

The figure shows the short-run marginal cost curve (SMC) cuts the MR curve at E. This equilibrium point establishes the price QA (= OP) and output OQ. As a result, the firm earns supernormal profit represented by the area PABC.

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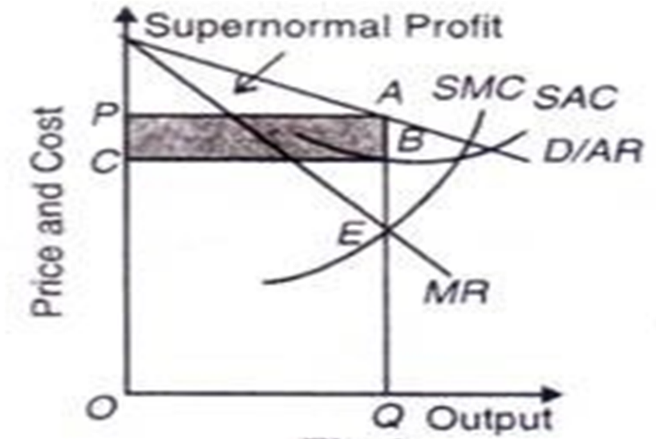
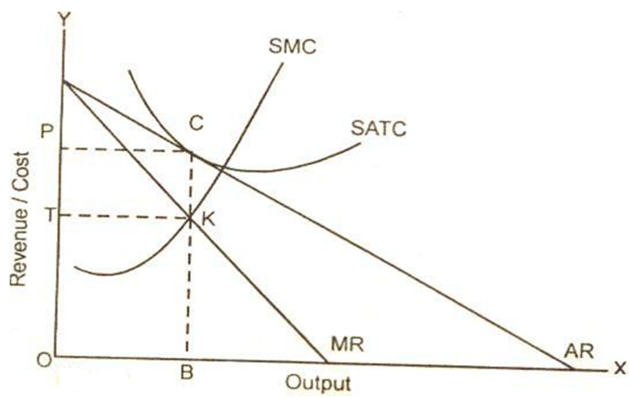


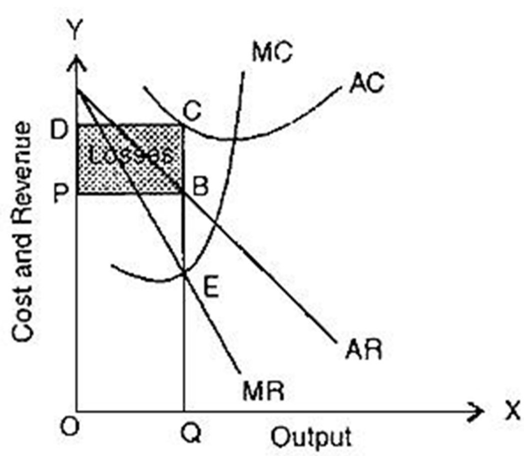
B. Short Run Equilibrium in Normal Profit

At the output smaller than OB, MR > SMC Therefore, increased output upto B adds more to total receipts than to total costs. In case, the output is increased beyond OB, the MR < SMC. Hence, the increased outputs beyond OB adds more to total cost.than to total receipts. This causes profits to decrease. So the best level of output for the monopolist firm is that where SMC curve cuts the MC curve from below.



C. Short Run Equilibrium in Losses

If the average total cost is above the market price, then the firm will incur losses, which will be equal to the average total cost minus the market price multiplied by the quantity produced. It will still minimize losses by producing that quantity where marginal revenue equals marginal cost, but eventually the firm will either have to reverse the losses, or it will have to exit the industry.



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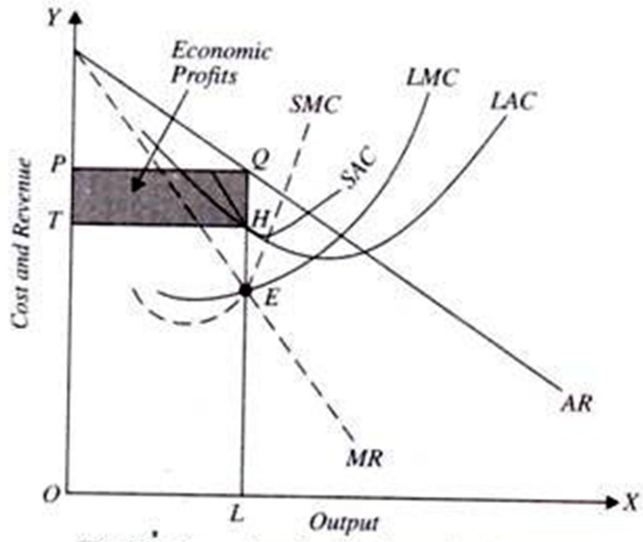
D. Long Run Equilibrium

Equilibrium at OL output at which long-run marginal curve LMC intersects marginal revenue curve MR. Given the level of demand as indicated by positions of AR and MR curves then choose the plant size whose short-run average and marginal cost curves are SAC and SMC. Charging price equal to LQ or OP and will be making profits equal to the area of rectangle THQP.



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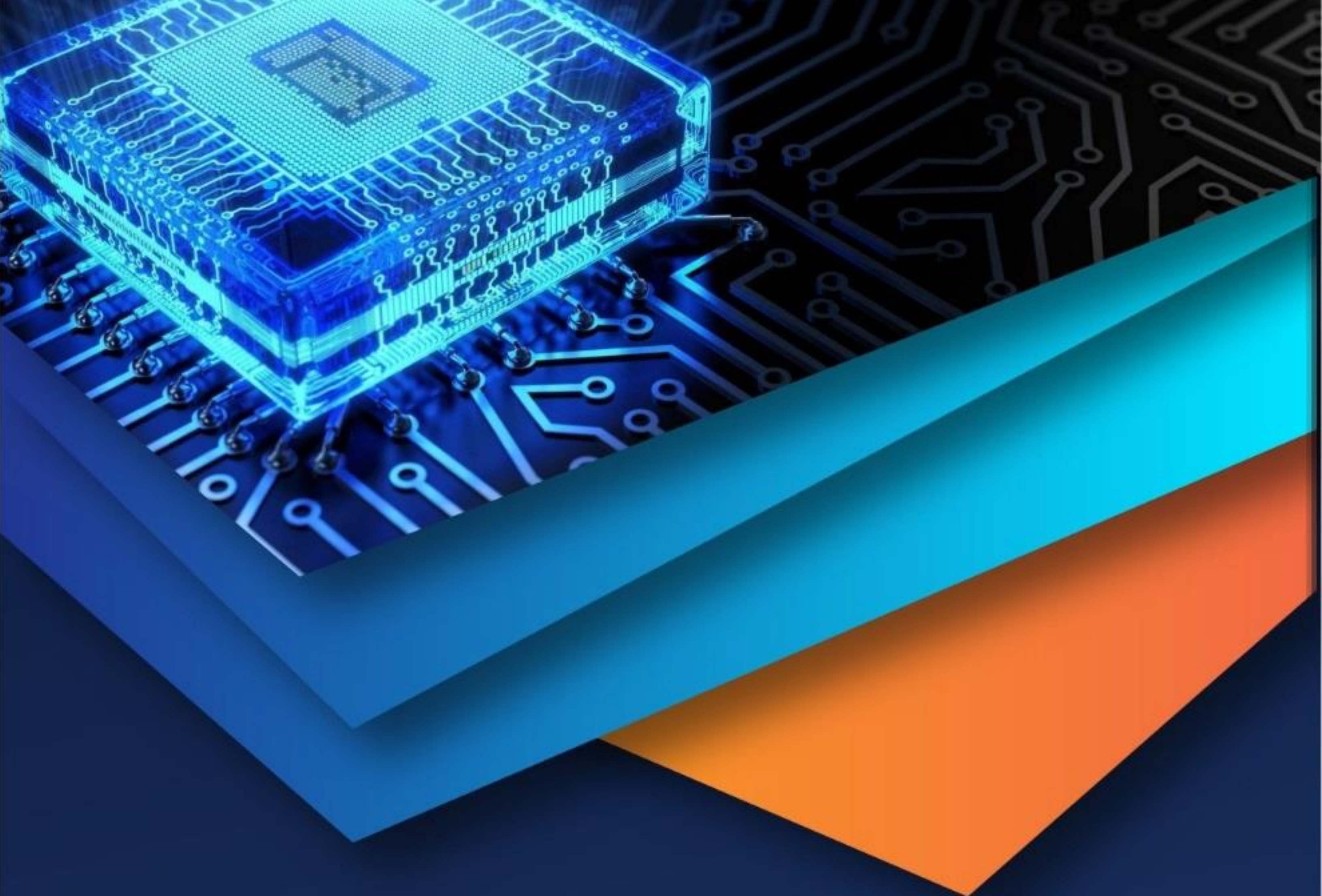

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