

## CONCEPT: CHARACTERISTICS OF MONOPOLY

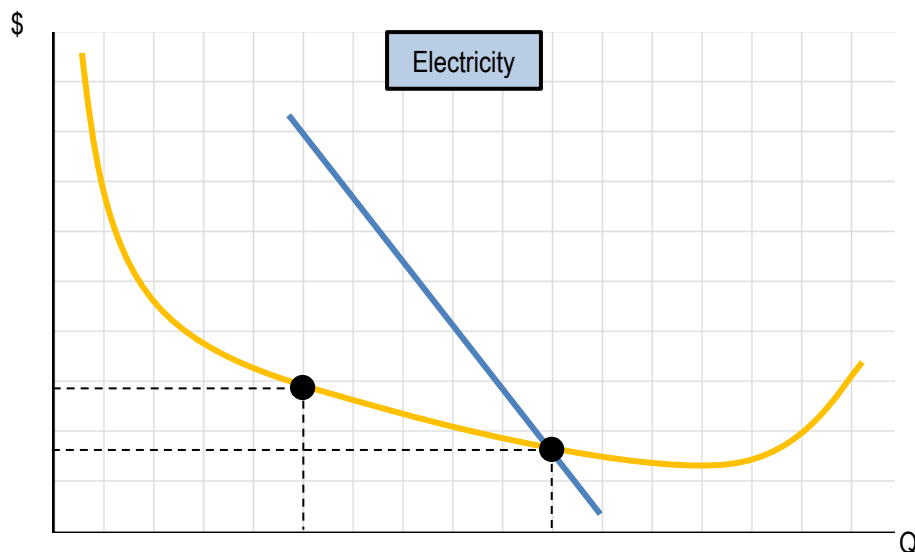
- A market is a **monopoly** when:

- ☐ Nature of Good: The goods for sale are \_\_\_\_\_
  - No close substitutes
- ☐ Setting Price: The sellers are \_\_\_\_\_
  - Only \_\_\_\_\_ in the market
  - **Market power** – the ability of one person (or group) to have substantial influence on \_\_\_\_\_
- ☐ Entry and Exit: Entry to the market is \_\_\_\_\_ by **barriers to entry**.
- ☐ Example Product:

- Barriers to entry make sure that a monopoly remains the only producer in a market:

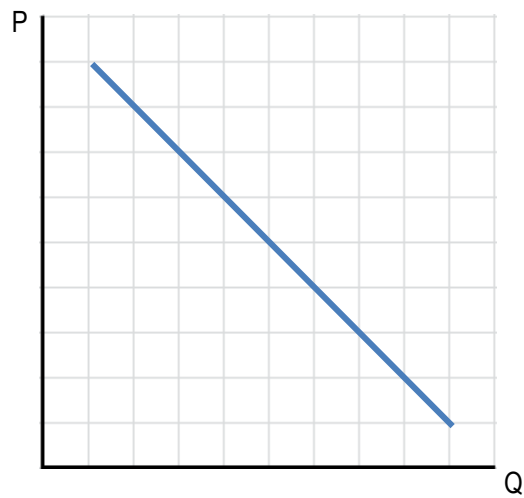
- ☐ Ownership of Key Resources
  - De Beers controlled substantially all diamond mines for a long period of time.
- ☐ Government Regulation
  - **Patents** give the owner the \_\_\_\_\_ right to produce a good for twenty years.
- ☐ Economies of Scale

- **Natural monopoly** – Large economies of scale make it cheaper for one producer to supply the good

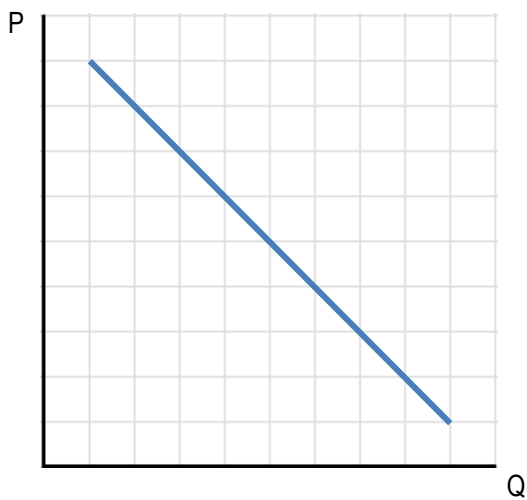


- The demand curve facing the monopoly firm is \_\_\_\_\_ to the demand curve for the entire industry.

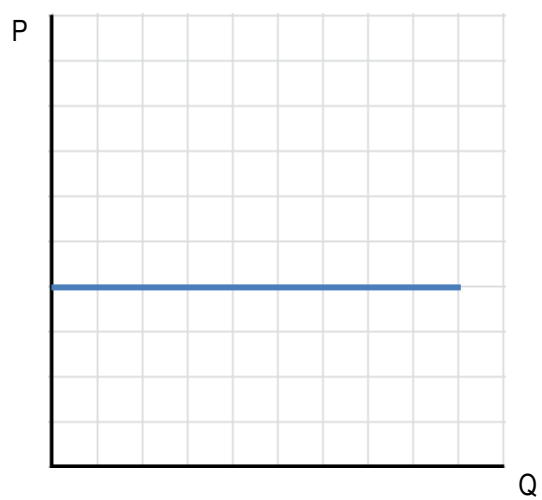
Market Demand



Monopoly Firm's Demand = Market



Perfect Competition Firm's Demand



**Monopoly Firm**

Demand Curve → \_\_\_\_\_

Increase Output → \_\_\_\_\_

$$P = AR$$

**Perfect Competition Firm**

Demand Curve → \_\_\_\_\_

Increase Output → \_\_\_\_\_

$$P = AR = MR$$

**PRACTICE:** Which of the following is NOT a defining feature of monopolies?

- a) Diseconomies of scale
- b) No close substitutes
- c) Influence over price
- d) Barriers to entry

**PRACTICE:** Which of the following is LEAST likely to operate as a monopoly?

- a) A pharmaceutical company with a drug patent
- b) The sole owner of an occupational license
- c) A store in a large shopping mall
- d) The holder of a public utility franchise

**PRACTICE:** A patent

- a) Guarantees quality to consumers
- b) Grants an exclusive right to an inventor of a product
- c) Allows someone the right to practice a profession
- d) Gives the owner legal control over a unique source or supply of raw materials

**PRACTICE:** A distinct characteristic of a natural monopoly is that

- a) Legal barriers to entry form its existence
- b) It has no close substitutes
- c) Its average total cost curve slopes downward as it intersects the demand curve
- d) It faces a downward-sloping demand curve