Economics

B.A. Part 2 (Hons), (Sub)
Paper - 1

Module - 4

MONOPOLY

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Monopoly literally means one seller. The word 'Mono' means one and 'poly' means seller. Monopoly is said to exist when one firm is the sole producer or seller of a product which has no close substitutes. It can be defined by three points -

1) There must be a single producer or seller of a product, if there is said to be a monopoly. It may be in the form of individual owner or single partnership or a joint stock company. In case of Monopoly there must be one firm in the field.

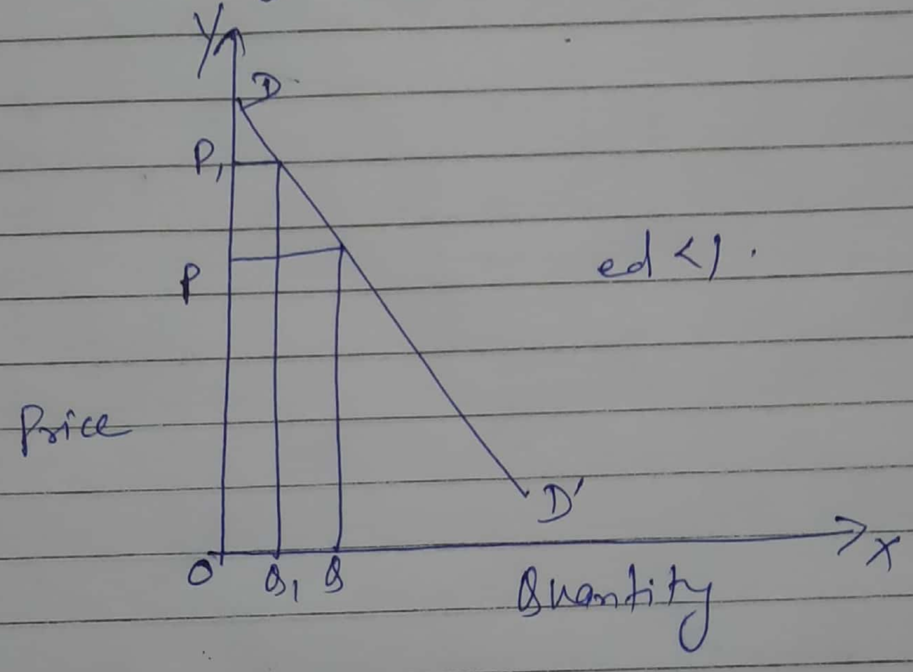
2) Secondly, no close substitutes for the product of that firm should be available.

3) Thirdly, there may be strong barriers to the entry of new firms exists whenever there is one firm having a sole control over the production of a commodity. These barriers may be economic in nature or of institutional and artificial nature.

Characteristics of Monopoly :-

1) Single seller - There is only one seller in the market.
2) Full control over price by the monopolist.
3) Profit Motive.
4) No entry of other producers or firms.
5) Always high price and low output.

A Monopolist always wanted to earn more profit. People is always ready to pay more money for their necessary commodities. In the condition of necessary commodities, we know that the elasticity of demand is always less than one. ed<1. It means that when monopolist wanted to earn more profit they rise the price for this type of commodity. People can't leave their quantity demanded accordance to price, so monopolist always wants to sale necessary commodity to earn more profit.



In the above diagram we can see that DD' curve is steeper and less elastic. It shows that more change in price will lead to the few change in quantity demanded. The monopolist is price maker but is influenced with demanded curve or demand for his product.