<u>Monopoly Market Structure</u>

The word monopoly has been derived from the combination of two words i.e., ‘Mono’ and ‘Poly’. Mono refers to a single and poly to control.

In this way, monopoly refers to a market situation in which there is only one seller of a commodity.

There are no close substitutes for the commodity it produces and there are barriers to entry. The single producer may be in the form of individual owner or a single partnership or a joint stock company. In other words, under monopoly there is no difference between firm and industry.

Monopolist has full control over the supply of commodity. Having control over the supply of the commodity he possesses the market power to set the price. Thus, as a single seller, monopolist may be a king without a crown. If there is to be monopoly, the cross elasticity of demand between the product of the monopolist and the product of any other seller must be very small.

<u>Features</u>:

We may state the features of monopoly as:

1. **<u>One Seller and Large Number of Buyers:</u>** The monopolist’s firm is the only firm; it is an industry. But the number of buyers is assumed to be large.

2. **<u>No Close Substitutes:</u>** There shall not be any close substitutes for the product sold by the monopolist. The cross elasticity of demand between the product of the monopolist and others must be negligible or zero.

3. **<u>Difficulty of Entry of New Firms:</u>** There are either natural or artificial restrictions on the entry of firms into the industry, even when the firm is making abnormal profits.

4. **<u>Monopoly is also an Industry:</u>** Under monopoly there is only one firm which constitutes the industry. Difference between firm and industry comes to an end.

5. **Price Maker:** Under monopoly, monopolist has full control over the supply of the commodity. But due to large number of buyers, demand of any one buyer constitutes an infinitely small part of the total demand. Therefore, buyers have to pay the price fixed by the monopolist.

PRICE-OUTPUT DETERMINATION UNDER MONOPOLY:

A firm under monopoly faces a downward sloping demand curve or average revenue curve. Further, in monopoly, since average revenue falls as more units of output are sold, the marginal revenue is less than the average revenue. In other words, under monopoly the MR curve lies below the AR curve.

The Equilibrium level in monopoly is that level of output in which marginal revenue equals marginal cost. The producer will continue producer as long as marginal revenue exceeds the marginal cost. At the point where MR is equal to MC the profit will be maximum and beyond this point the producer will stop producing.

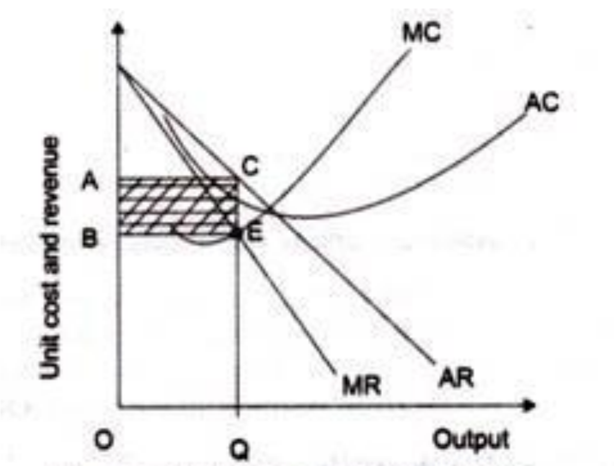

Figure-11: Monopoly Equilibrium

In Figure-11, if output is increased beyond OQ, MR will be less than MC. Thus, if additional units are produced, the organization will incur loss. At equilibrium point, total profits earned are equal to shaded area ABEC. E is the equilibrium point at which MR=MC with quantity as OQ.