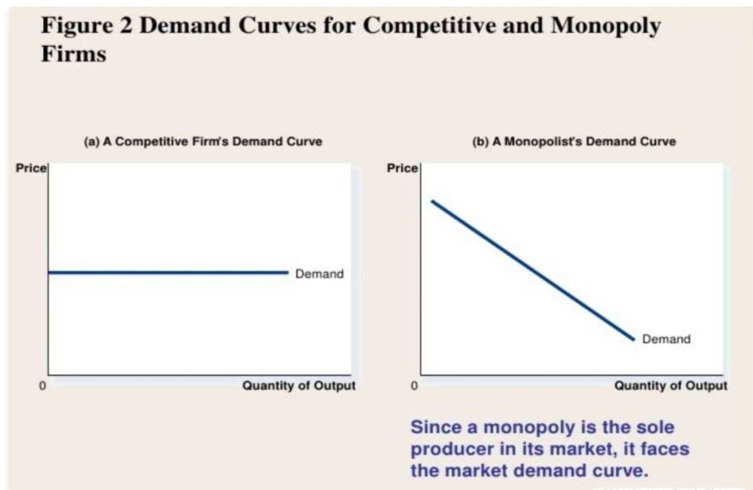
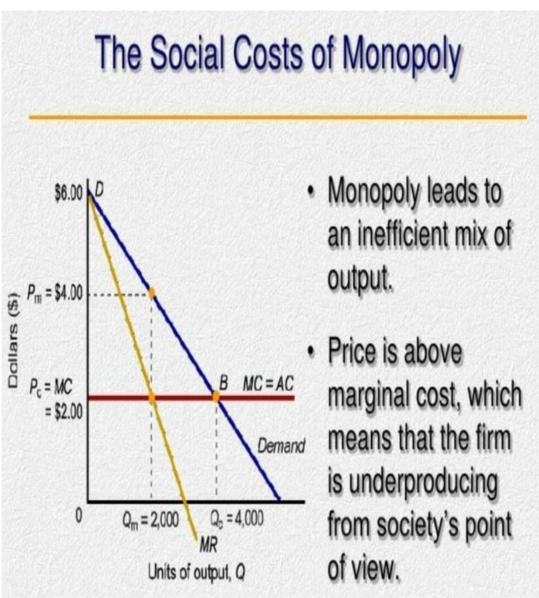
Monopoly: ***Perfect Competition Vs Monopoly, Social Cost of Monopoly, Price Discrimination, Antitrust-Law, Natural Monopoly***

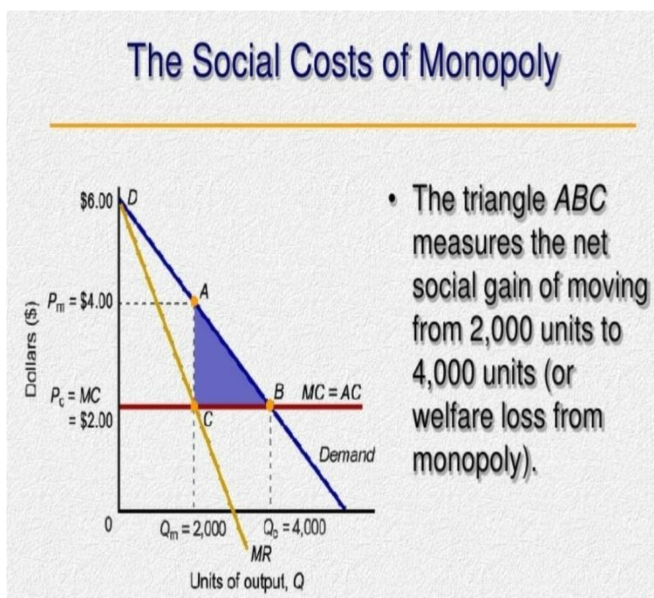
Perfect Competition Vs Monopoly

- Monopoly versus Competition
  - Monopoly
    - Is the sole producer
    - Faces a downward-sloping demand curve
    - Is a price maker
    - Reduces price to increase sales
  - Competitive Firm
    - Is one of many producers
    - Faces a horizontal demand curve
    - Is a price taker
    - Sells as much or as little at same price



Social Cost of Monopoly





Price Discrimination

PRICE DISCRIMINATION

- *Price discrimination* is the business practice of selling the same good at different prices to different customers, even though the costs for producing for the two customers are the same.

The Analytics of Price Discrimination

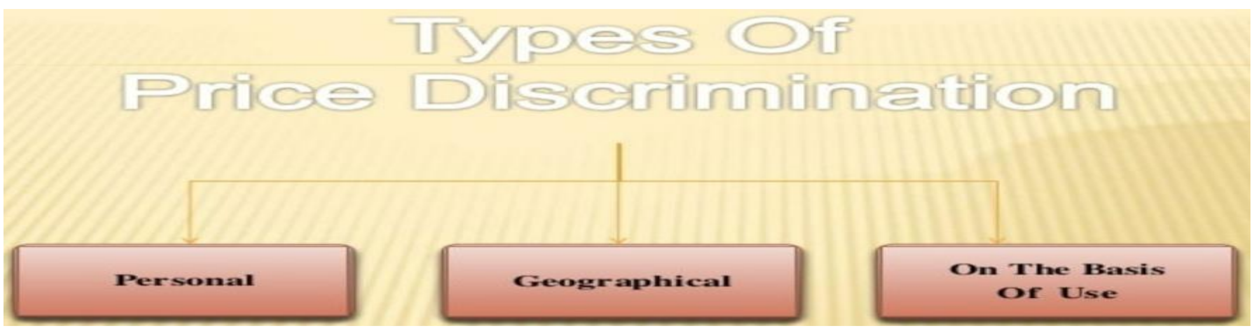
- Price discrimination is not possible when a good is sold in a competitive market since there are many firms all selling at the market price. In order to price discriminate, the firm must have some *market power*.
- Perfect Price Discrimination
  - Perfect price discrimination refers to the situation when the monopolist knows exactly the willingness to pay of each customer and can charge each customer a different price.

The Analytics of Price Discrimination

- Two important effects of price discrimination:
  - It can increase the monopolist's profits.
  - It can reduce deadweight loss.

Examples of Price Discrimination

- Movie tickets
- Airline prices
- Discount coupons
- Financial aid
- Quantity discounts



Personal

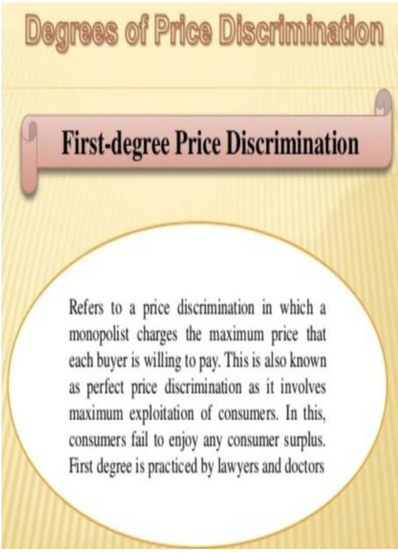
Refers to price discrimination when different prices are charged from different individuals. The different prices are charged according to the level of income of consumers as well as their willingness to purchase a product. For example, a doctor charges different fees from poor and rich patients.

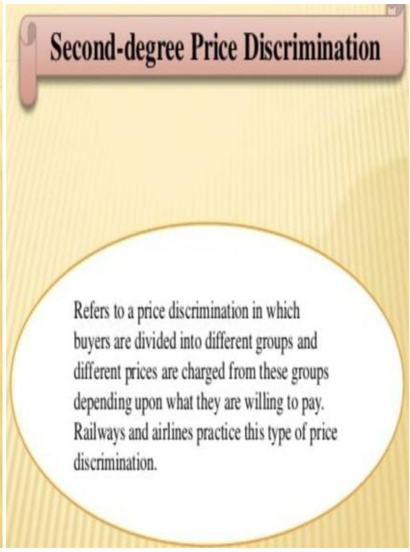
Geographical

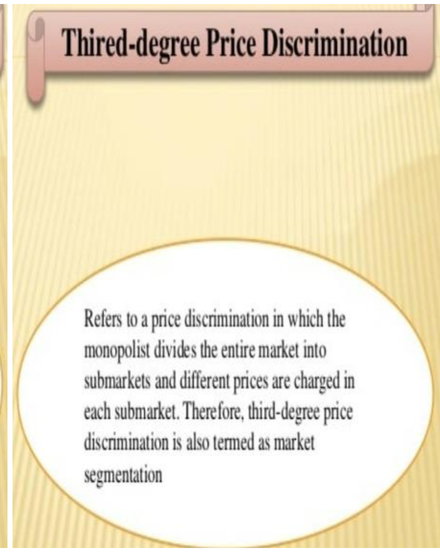
Refers to price discrimination when the monopolist charges different prices at different places for the same product. This type of discrimination is also called dumping.

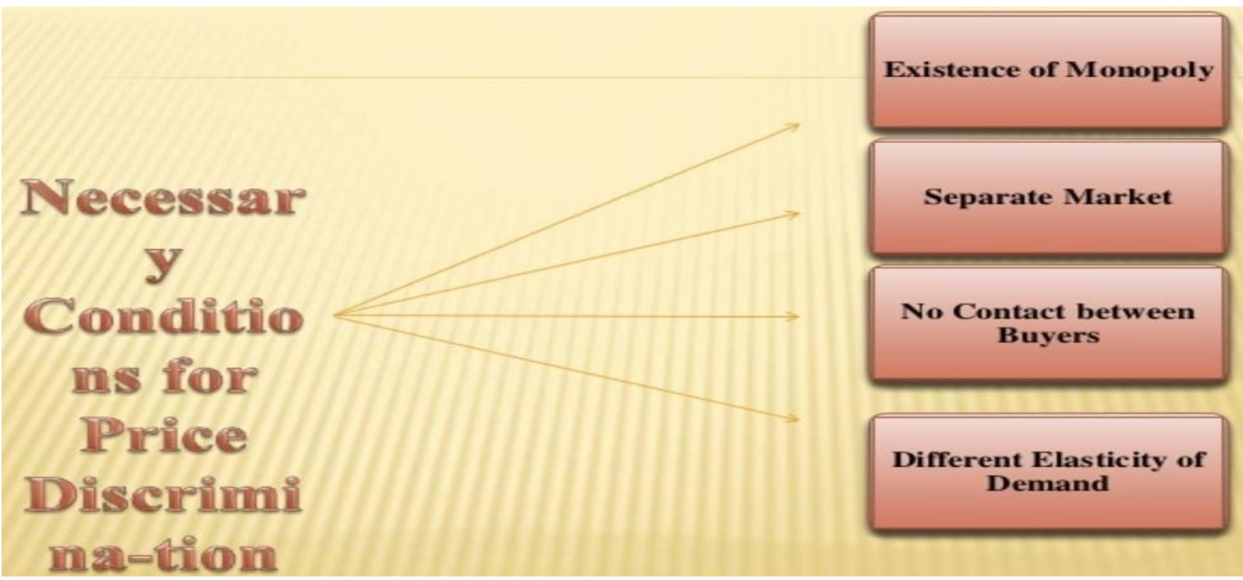
On the Basis of Use

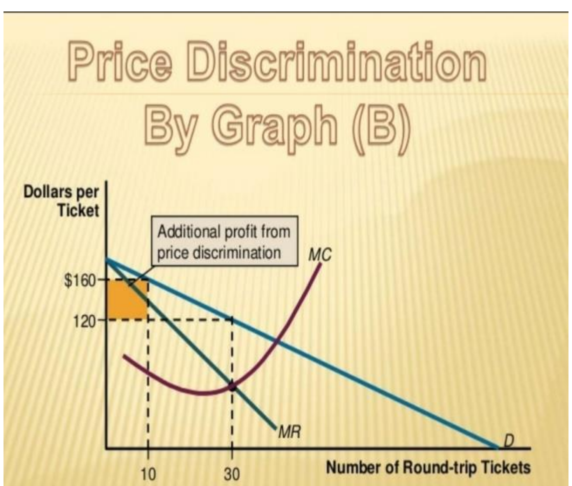
Occurs when different prices are charged according to the use of a product. For instance, an electricity supply board charges lower rates for domestic consumption of electricity and higher rates for commercial consumption.


Degrees of Price Discrimination
First-degree Price Discrimination
Refers to a price discrimination in which a monopolist charges the maximum price that each buyer is willing to pay. This is also known as perfect price discrimination as it involves maximum exploitation of consumers. In this, consumers fail to enjoy any consumer surplus. First degree is practiced by lawyers and doctors


Second-degree Price Discrimination
Refers to a price discrimination in which buyers are divided into different groups and different prices are charged from these groups depending upon what they are willing to pay. Railways and airlines practice this type of price discrimination.


Thired-degree Price Discrimination
Refers to a price discrimination in which the monopolist divides the entire market into submarkets and different prices are charged in each submarket. Therefore, third-degree price discrimination is also termed as market segmentation


Necessary Conditions for Price Discrimina-tion
Existence of Monopoly
Separate Market
No Contact between Buyers
Different Elasticity of Demand


Price Discrimination By Graph (B)
Dollars per Ticket
Additional profit from price discrimination
MC
$160
120
MR
D
10
30
Number of Round-trip Tickets

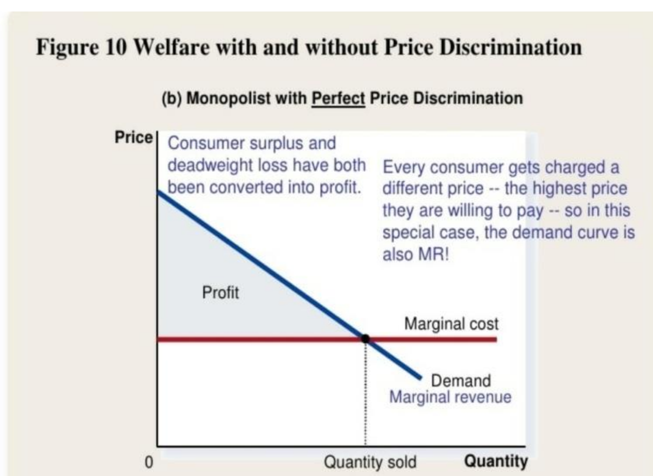
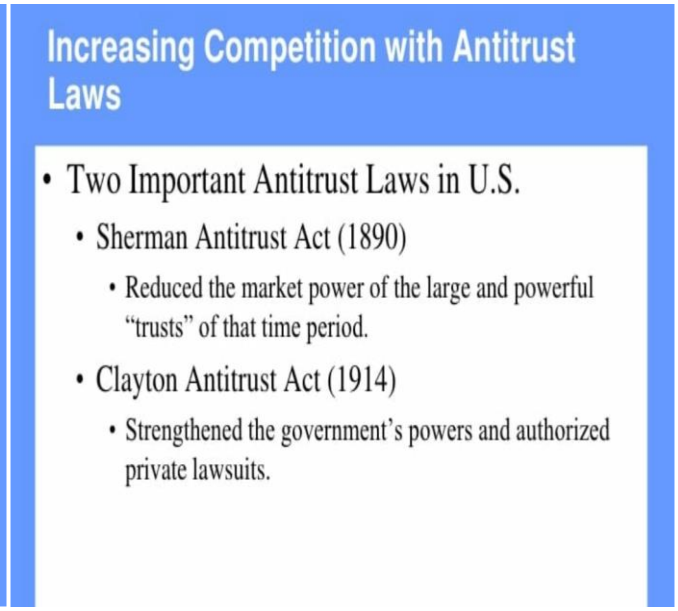
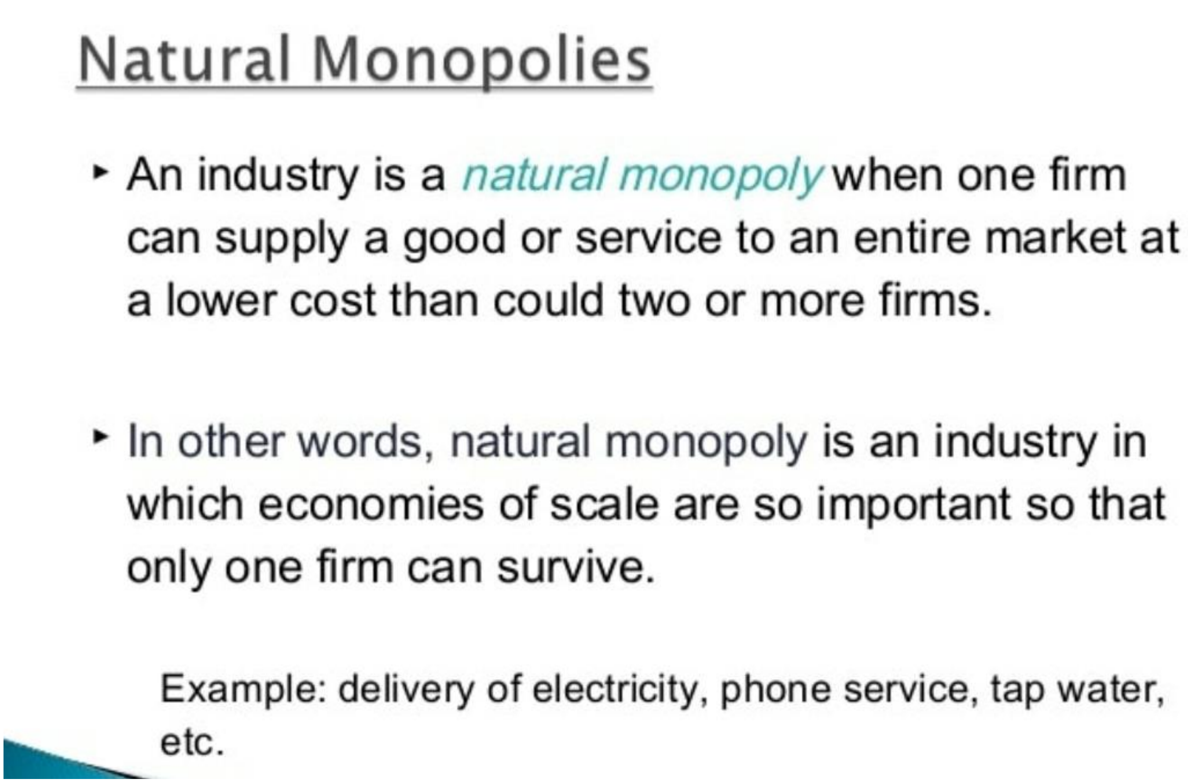


Figure 10 Welfare with and without Price Discrimination
(b) Monopolist with Perfect Price Discrimination
Price
Consumer surplus and deadweight loss have both been converted into profit.
Every consumer gets charged a different price -- the highest price they are willing to pay -- so in this special case, the demand curve is also MR!
Profit
Marginal cost
Demand
Marginal revenue
0
Quantity sold
Quantity

Antitrust-Law



Natural Monopoly



Types of Natural Monopoly

- Unregulated natural monopoly
- Regulated natural monopoly

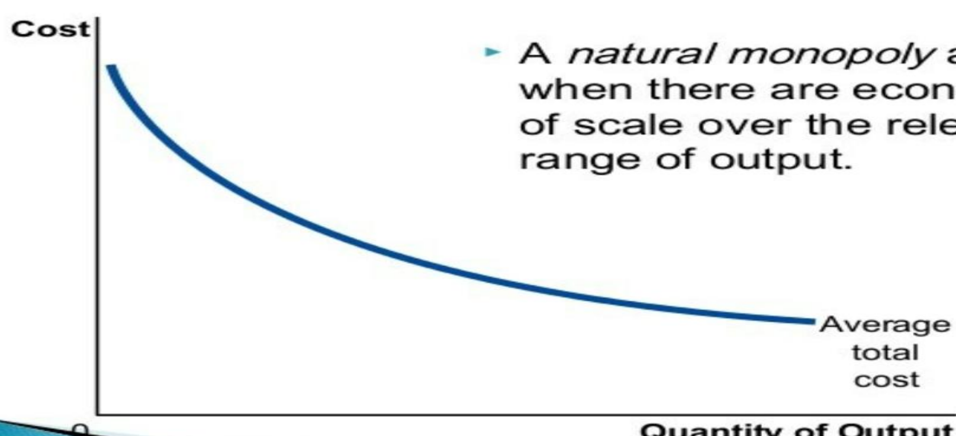
Unregulated Natural Monopoly

- An unregulated natural monopoly would attempt to maximize profits by producing the quantity of output where marginal revenue equals marginal cost. (MC=MR)

Regulating Natural Monopoly

- If a natural monopoly is regulated to produce the optimal quantity of output, the firm will suffer an economic loss.
- To keep the monopoly firm to survive would require a <u>government subsidy to the firm</u> to eliminate the economic loss.

Natural Monopolies



- A *natural monopoly* arises when there are economies of scale over the relevant range of output.