**Monopoly**

Chapter 15-1
The market structure of Monopoly

**What is a Monopoly?**

- A *monopoly* is a market structure in which there is a single supplier of a product.
- The *monopoly firm* (monopolist):
  - May be small or large.
  - Must be the **ONLY** supplier of the product.
  - Sells a product for which there are **NO** close substitutes.
- Monopolies are fairly common: U.S. Postal Service, local utility companies, local cable providers, etc.

**Introduction**

- *Monopoly* is a market structure in which a single firm makes up the entire market.
- Monopolies exist because of barriers to entry into a market that prevent competition.

**The Creation of Monopolies**

- Monopolies often arise as a result of barriers to entry.
- **Barrier to entry:** anything that impedes the ability of firms to begin a new business in an industry in which existing firms are earning positive economic profits.
- There are three general classes of barriers to entry:
  - Natural barriers, the most common being **economies of scale**
  - **Actions by firms** to keep other firms out
  - Government (legal) barriers

**Economies of Scale**

- In some industries, the larger the scale of production, the lower the costs of production.
- Entrants are not usually able to enter the market assured of or capable of a very large volume of production and sales.
- This gives incumbent firms a significant advantage.
- Examples are electric power companies and other similar utility providers.

**A Monopolistic Market**

- *Monopoly* is a market structure in which one firm makes up the entire market
- **Barriers to entry into the market prevent competition**
- **Barriers to entry can be:**
  - Legal
  - Sociological
  - Natural
  - Technological
- There are no close substitutes for the monopolist’s product
Economies of Scale

Actions by Firms

- Entry is barred when one firm owns an essential resource.
- Examples are inventions, discoveries, recipes, and specific materials.
  - Microsoft owns Windows, and has been challenged by the U.S. Dept. of Justice as a monopolist.

Government

- Governments often provide barriers, creating monopolies.
- As incentives to innovation, governments often grant patents, providing firms with legal monopolies on their products or the use of their inventions or discoveries for a period of 17 years.

Not in your book but another way to look at barriers

- Legal barriers, such as patents, prevent others from entering the market.
- Sociological barriers – entry is prevented by custom or tradition.

Types of Monopolies

- Natural monopoly: A monopoly that arises from economies of scale. The economies of scale arise from natural supply and demand conditions, and not from government actions.
- Local monopoly: a monopoly that exists in a limited geographic area.
- Regulated monopoly: a monopoly firm whose behavior is overseen by a government entity.
- Monopoly power: market power, the power to set prices.
- Monopolization: an attempt by a firm to dominate a market or become a monopoly.

- Natural barriers – the firm has a unique ability to produce what other firms can’t duplicate.
- Technological barriers – the size of the market can support only one firm.
Regulated Monopolies

- The Florida Public Service Commission exercises regulatory authority over utilities in the state of Florida in one or more of three key areas: rate regulation; competitive market oversight; and monitoring of safety, reliability, and service.