

# MONOPOLY

Chapter 25  
SdP



By the end of this chapter you should be able to:



- To describe what is a monopoly
- To weigh up the advantages and disadvantages of monopoly

What is it?



A pure monopoly exists when a market is supplied by just one producer.

In some countries, if a firm has 25% or more of a market it's said to be a monopolist.



Features of monopoly



**Barriers to entry**

Cost barriers  
Legal barriers  
Economies of scale  
Marketing barriers

**Unique product**

**Control over price**

Advantages



**More research and development**  
They have the resources to invest in research and development.

**Economies of scale**

Since most monopolists are large they are able to exploit economies of scale.

Advantages



**Natural monopolies**

Markets where it is more efficient if just one firm supplies all consumers: high fixed costs as the net benefit.

**International competitiveness**

If a firm has a monopoly in the domestic market, it can build strength and compete more effectively with competition from overseas.

Disadvantages



**Higher prices**

The monopolist is able to charge more for its products. They tend to restrict output in order to raise up the price.

**Restricted choice**

If there is just one supplier in a market consumer choice is obviously restricted.

Disadvantages



**Lack of innovation**

Monopolists do not have enough incentive to spend money on product innovation.

**Inefficiency**

If a firm does not have any competition there is no incentive to keep costs down. Monopolists can adopt a "lumpy" approach to business and incur unnecessary costs.

Any Questions



**HOMEWORK:**

Economics in practice  
Weyerhaeuser  
Page 113, text book



Examples of monopolists



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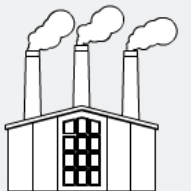


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 **Disadvantages**



**Disadvantages**



# Features of monopoly



## Barriers to entry

Cost barriers

Legal barriers

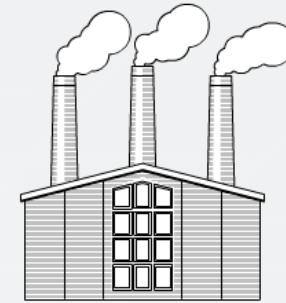
Economies of scale

Marketing barriers

## Unique product

## Control over price

# Advantages



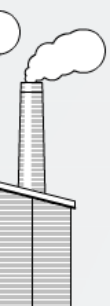
## More research and development

They have the resources to invest in research and development.

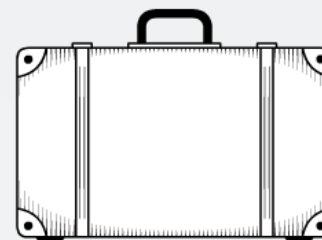
## Economies of scale

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# Advantages



## Natural monopolies

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# Disadvantages



## Higher prices

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## Restricted choice

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# Disadvantages



## Lack of innovation

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## Inefficiency

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# Any Questions



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