14. MONOPOLY

Q:1 Explain Features of Monopoly?

(A) Monopoly :- Monopoly is the market structure where One Seller Controls over entire market supply. The term monopoly is derived from Two Greek words- 'Mono' which means 'Single' and 'Poly' means 'Seller'. A Monopolist is a Price maker but not the Price-taker.

(B) Meaning :- " Monopoly means a Single seller in a market which has no close substitutes. "

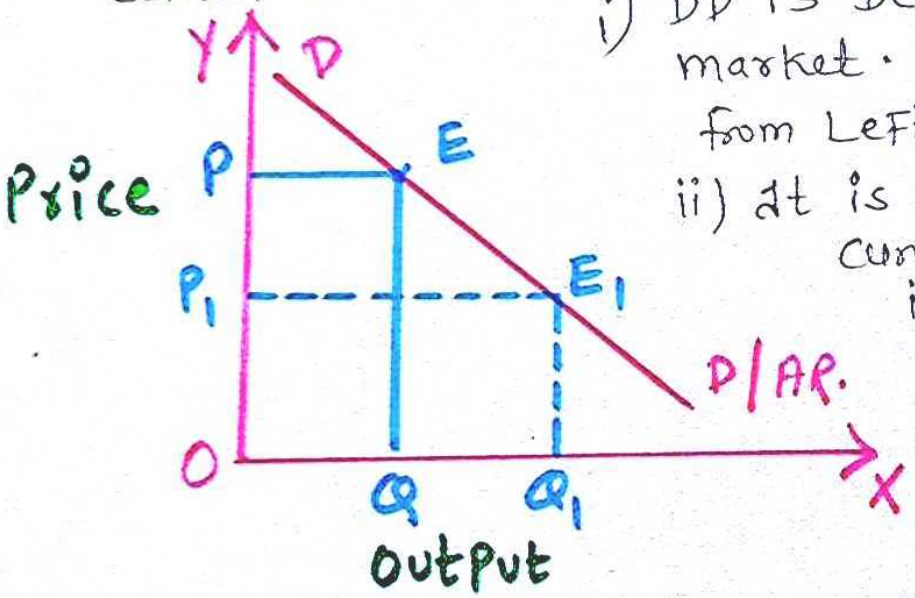
(C) Features of Monopoly :-

1. **Single Seller :-** Monopoly is the single seller in the market with No Close-Substitutes.
2. **No Close-Substitutes :-** As there is single seller in the market, so the buyers have no alternative choice. It means no close substitute available in the market.
3. **No Competition :-** In monopoly market, one seller is available which has no close substitutes, so There is no competition in the market.
4. **Barrier to Entry :-** Monopoly do not allow its competitors to enter in the market. He has complete hold over entire market supply and its Price
5. **No Difference between Firm and Industry :-** In Monopoly Market, firm itself is a Industry because there is

Single seller in the market. Hence there is no difference between Firm and Industry in monopoly market.

6. **Maximum Profit :-** The main aim of monopolist is to earn maximum profits. So he follows Price-discrimination. It means different Prices from different Consumers.

7. **A Monopolist Fix Either Price or Out Put :-** A Monopoly can fix either Price or Output but he cannot Control both.



i) DD is Demand Curve in monopoly market. It is sloping downward from Left to right.

ii) It is also called Avg. Revenue Curve - AR

iii) A monopoly can sell more Quantity - OQ_1 due to Fall in Price - OP_1

Q:2 What are the Sources OF Monopoly?

(A) Monopoly } Same From Q:1
(B) Meaning }

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(C) **Sources of Monopoly Power :-** There are many Factors in economy which Provide monopoly Power to Firm. The main Sources of Monopoly Power are —

1. **Natural Sources :-** Supply of Natural resources is Controlled either by Government or by Private monopoly. The Exclusive Ownership OF Key Resources by Single

Firm also Leads to Natural mono poly.

Example :- A South African Diamond Company - De Beers has 80% control over worlds diamond supply.

2. Technology :- Special Knowledge about Technology OF Techniques OF Production Create Monopoly in market.

Example - Apple - iphone, Amazon, Google, Facebook Microsoft Windows etc.

3. Legal Protection :- Companies enjoy Legal monopoly due to Patents, Copy rights, Trade marks etc. Such Legal Protection maintain Healthy Competition in market.

4. Economies OF Large Scale :- Big and MNCs are investing more in Capital and Technology to get Large scale Production. They supply goods at Low Price which affect on New firm to enter in the market.

Example - In Transport, Communication, Electricity, Iron and steel, Cement only a Very Large Firm can get more advantages of Large scale Production.

5) Cartel / Merger Formation :- If a Product is Produced by few Producers in market. It is called Oligopoly market. Sometime to avoid competition, these Producers come together and make Cartel, merger, Trust etc.

Example :- OPEC is the best Example of Cartel Formation

6) **Goodwill :-** Old and Mature Firm enjoy monopoly Power due to High degree of goodwill in the market.
Example - Godrej Cupboards or Safety Locks.

7. **Barriers to New Firms :-** A Existing Firm by to create monopoly in monopoly market due to—

- **Low Pricing Policy**
- **Heavy Advertising Expenditure**
- **New Services to Customers**
- **Product differential etc.**

Thus slowly and gradually a Firm enjoy monopoly Power in market.

Q:3 Explain the Equilibrium of a Monopoly in Short-Run?

(A) **Equilibrium of a Monopoly in short-Run :-** Monopoly is a market structure where one Seller Control over entire market supply. A monopolist is a Price-maker but not the Price taker. As a Rational Producer, his main aim is to earn maximum Profit.

(B) **Conditions of Equilibrium :-**

1. SMC = SMR
2) The SMC Curve intersect SMR Curve From below.

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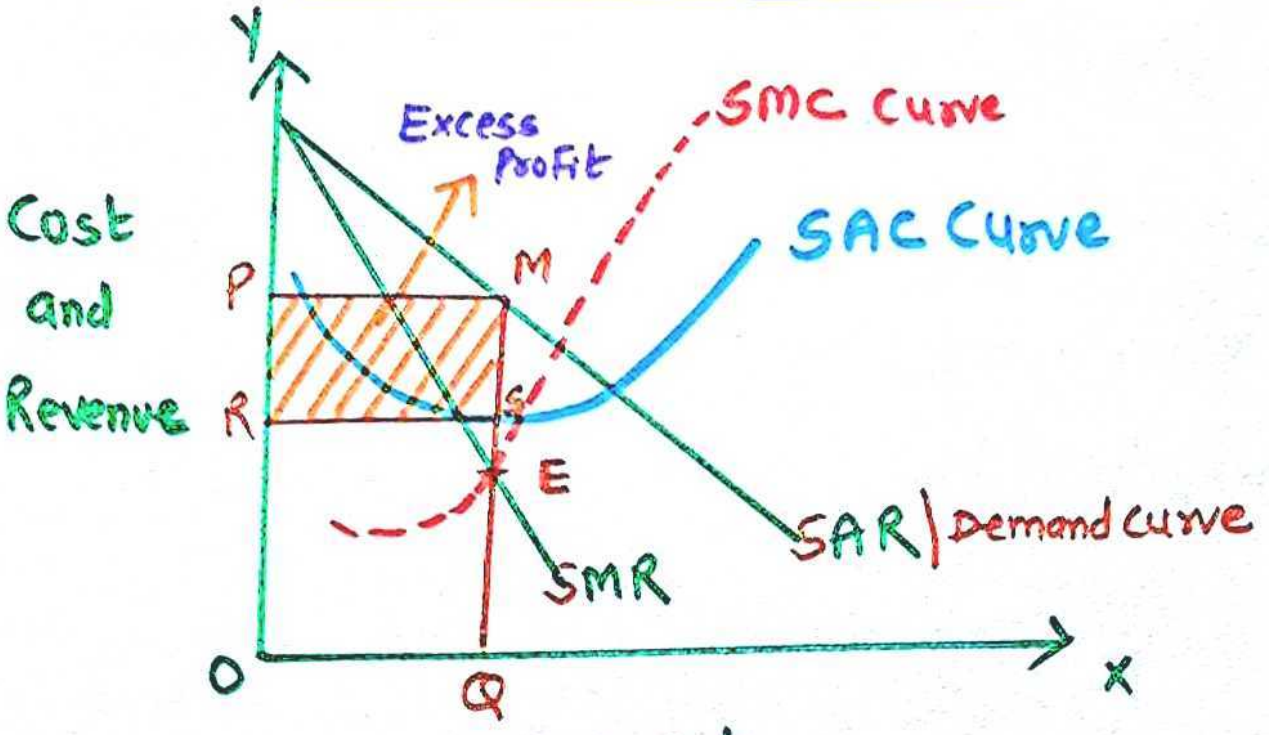
(1) **Excess Profit :-** In short-run a monopolist is expected to earn Excess Profit. But the demand For Commodity depends Upon market conditions so sometime monopolist may Suffer loss.
When AR > SAC then monopolist can earn Excess Profit shown in following diagram :—



i) A monopoly Enjoys Equilibrium at Point E where SMC = SMR. Here Producer sell OQ output at OP Price.

ii) SAC is Avg. Cost Curve of monopolist which is 'U' shaped. SAR is Avg. Revenue Curve in monopoly market.

iii) A Equilibrium Level—

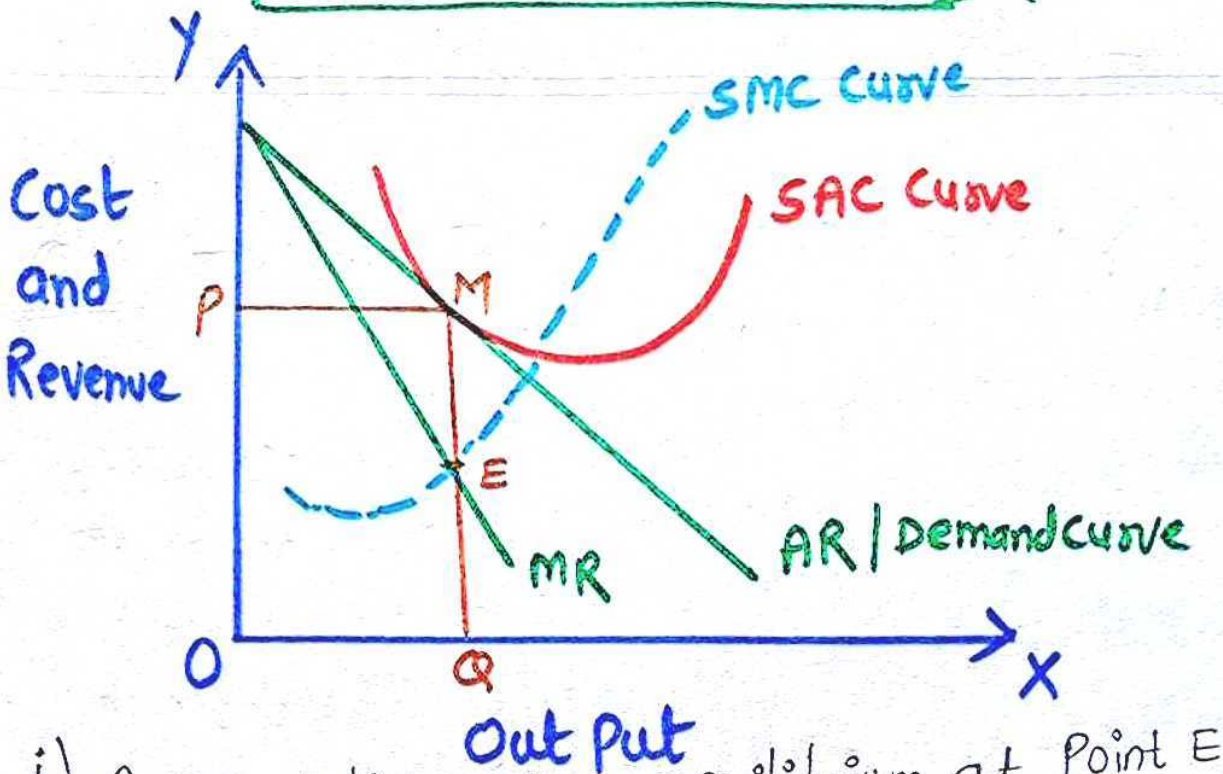
TR = POQM and TC = ROQS

∴ Excess Profit = TR − TC

= POQM − ROQS

Excess Profit = PRSM

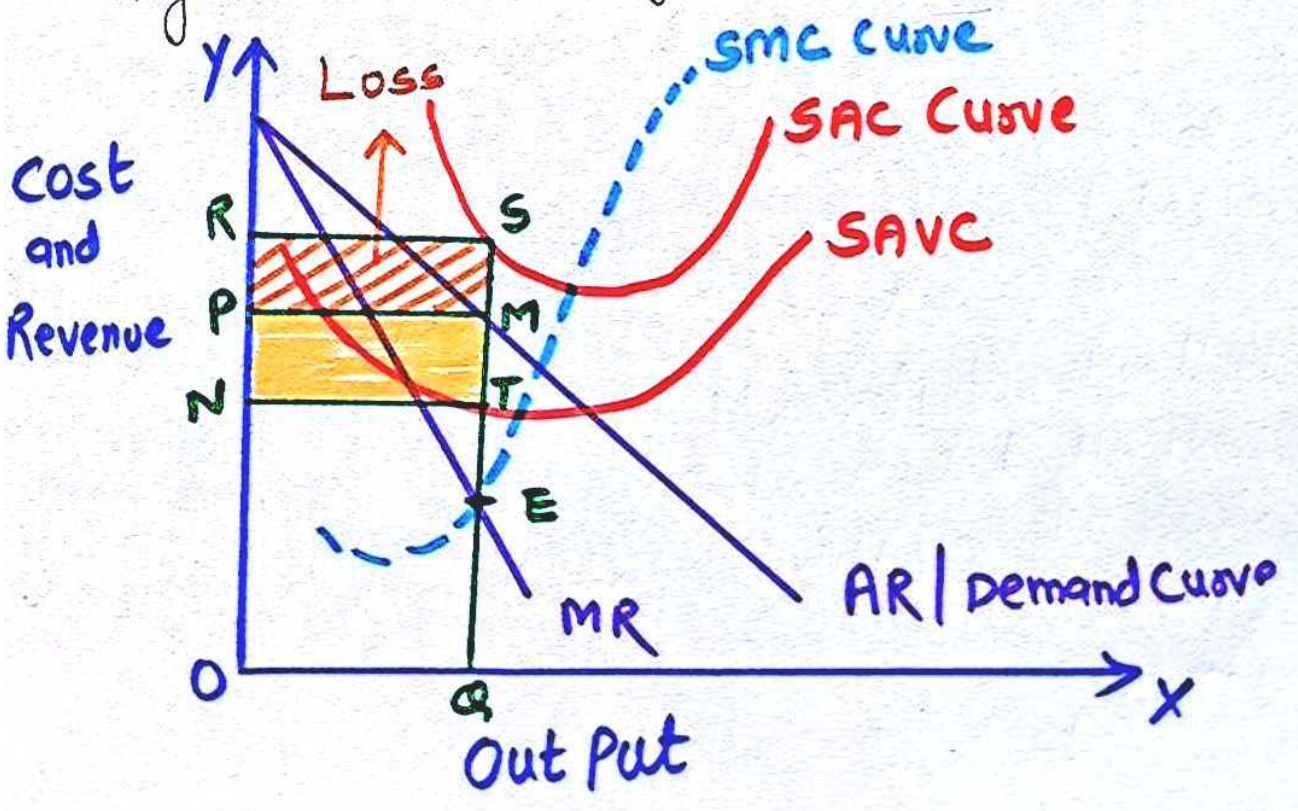
(2) Normal Profit :- In Short-run monopoly may earn Normal Profit because demand is not under his control. So monopoly can charge Low Price to earn only Normal Profit. Here AR = AC shown in the Following diagram :—



i) A monopolist enjoys equilibrium at Point E where SMR = SMC. Here Producer sell OQ OutPut at Price OP.

ii) TR = POQM and TC = POQM As TC = TR. Here Producer enjoys Normal Profit.

(3) Loss :- Sometimes monopolist is Unable to cover Avg. Cost. Here monopoly suffer Loss where SAC > SAR.



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i) A monopolist gets Equilibrium at Point E where SMR = SMC. Here Producer sell OQ output at OP price.

ii) TR = POQM and TC = ROQS

Loss = TC − TR

= ROQS − POQM

Loss = RPMS (Partial Loss of Fixed cost)

But Monopoly still get Profit = PNTM

It means Variable Cost and some Part of Fixed cost.

Q:4 Explain the Equilibrium of a Monopoly in Long Run With Optimum and Larger than Optimum Output ?

(A) **Equilibrium of Monopoly in Long-Run :-** In Long-Run, all Costs are Variable in nature. There are only Two cost Curves in Long Run—

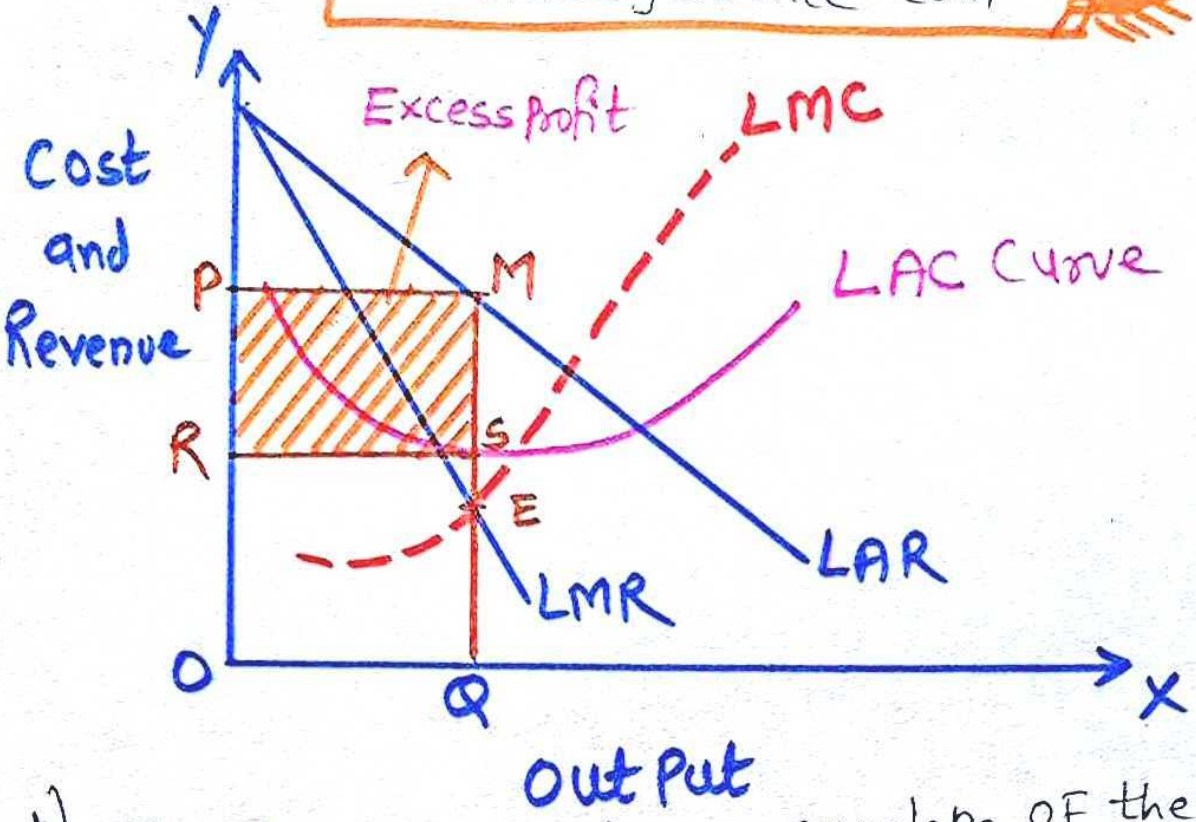
i) LAC Curve ii) LMC Curve and both are 'U' shaped.

A Monopolist will enjoys Equilibrium Position where LMC = LMR.

In Long-Period, monopoly try to adjust his supply according to demand in market. He can increase the Size of Plant to increase Production Capacity.

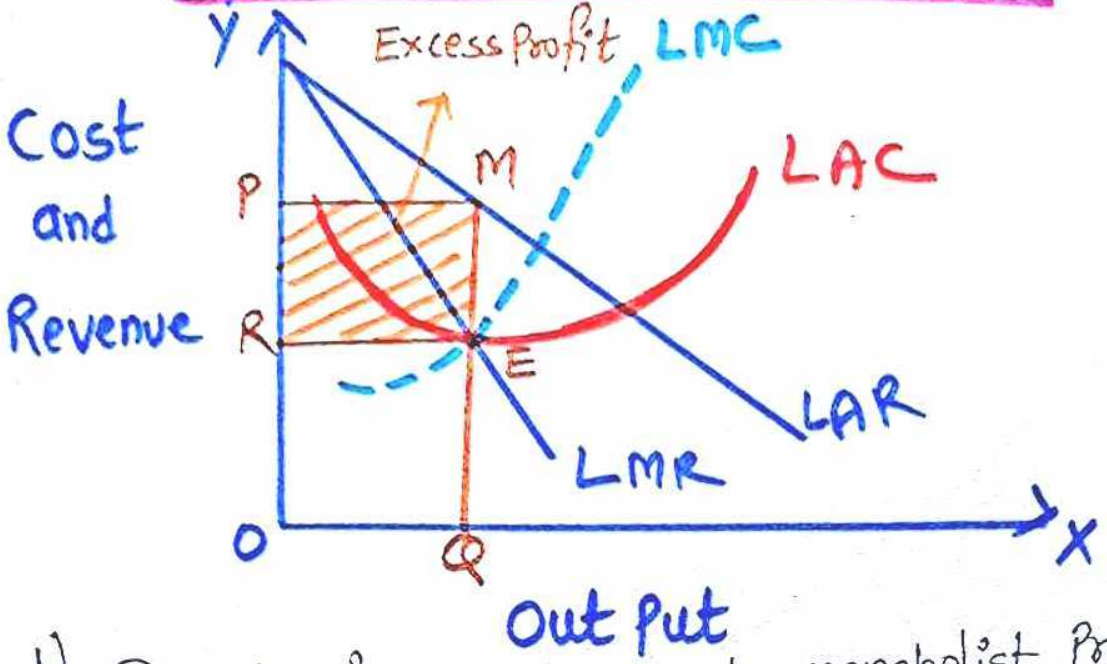
(B) **Conditions of Equilibrium In Long-Run:-**

1. LMR = LMC
2. LMC Curve intersect LMR From below



1) The LAC Curve is an envelope of the Various SAC Curves.
2) The Producer enjoys Equilibrium at Point E where LMR = LMC. Here Producer sell OQ output at OP Price.
3) TR = POQM and TC = ROQS
∴ Excess Profit = TR - TC
= POQM - ROQS
Excess Profit = PRSM (Shaded area)
4) Generally Monopoly earns Excess Profit in Long-Run. But Sometimes due to insufficient demand, monopoly can earn Normal Profit.
In Long-Run, a monopolist Produces Less than optimum Output. But a monopolist would Produce optimum output or More than optimum output depends upon-
i) Market Demand.
ii) Production Capacity.

(C) Optimum Output in Long Run

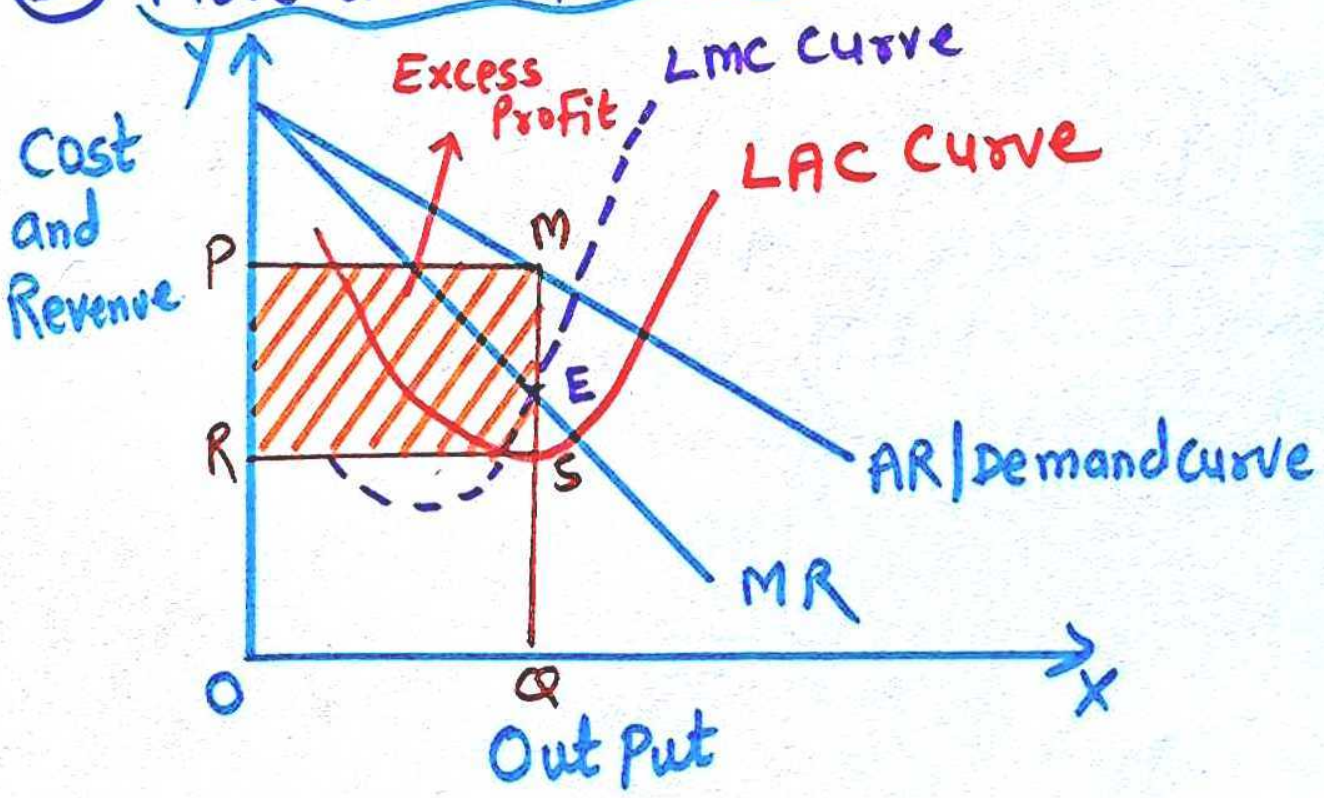


1) Due to increased Demand, monopolist Produced output at Optimum Level i.e at the Lowest Point of LAC. Here LAC = LMC = LMR = Equilibrium

2) TR = POQM TC = ROQE

∴ Excess Profit = TR - TC = PREM (shaded area)

(D) More than Optimum Output in Long-Run



1) Sometimes it is possible that Demand is subject to increasing Return
Example- Demand for medicines during Covid-19.
So Here Producer, Produce more than Optimum Output.

2) TR = POQM and TC = ROQS
∴ Excess Profit = TR - TC = PRSM (shaded area)

3) Thus monopoly is not always Produce Less than Optimum Output (Sub-Optimum) but it can Produce at Optimum level or more than Optimum Level depends upon-
   i) Market Demand
   ii) Production Capacity.

Q:5 Choose the Correct Option :—

1) A monopolist Usually Produces Less than Optimum Output
   a) Less than optimum Output b) More than Optimum Output
   c) Optimum Output

2) A monopolist is a Price Maker
   a) taker b) Maker c) neither.

3) For a monopoly firm AR > MR
   a) AR = MR b) AR > MR c) AR < MR

4) In a Long-run a monopolist Usually earns Excess Profit
   a) Excess Profit b) Normal Profit c) Sub-normal Profit

5) Excess Profit is earned When AR > AC
   a) AR > AC 2) AR = AC 3) AR < AC

6) Demand for monopoly firm's Product Less Elastic
   a) Perfectly Elastic b) Less Elastic c) Perfectly inelastic

7. Which of the following statements is True of monopoly?
A monopolist usually earns Excess Profit in Long-Run

a) A monopolist can decide about both Price and Output to be sold
b) A monopolist posses no barrier to entry of new firms
c) A monopolist usually earns excess profit in the Long-Run
d) A monopolist produces at minimum Avg. cost.

8) Which of the following is an example of source of monopoly power? **All the above**

a) A key Resource is owned by single firm b) Technology
c) Legal Protection d) All the above

9) A Fundamental source of Monopoly market power arise from **Barriers to Entry of New firms**

a) Perfectly Elastic Demand b) Perfectly inelastic Demand
c) Barriers to Entry of New Firms d) All the above.

10) For a Profit-maximizing monopolist **P > MR = MC**

a) P > MR = MC b) P = MR = MC
c) P > MR > MC d) MR < MC < P

11) A Profit-maximizing monopolist will Produce the Level of Output at the Level **MR = MC**

a) AR = ATC b) AR = MC c) MR = MC d) TR = opportunity Cost

12) IF a profit-maximising monopolist faces a Down-ward Sloping market demand Curve, its **MR < Price of Product**

a) AR < Price of Product b) AR < MR
c) MR < Price of Product d) MR > Price of Product

13) A monopolist faces **A downward sloping Demand Curve and can sell only a Limited quantity of output at each price.**

a) A Downward Sloping demand Curve and can sell as much output as he desires at the market Price.
b) A Downward Sloping demand Curve and can sell only a limited Quantity of output at each Price.
c) A Horizontal demand Curve and can sell as much output as he desires at the given market Price.
d) A Horizontal demand Curve and they can sell only a limited Quantity of output at each Price.

Q:6 Match the Following statements :-

1. Monopoly → Single seller
2. Legal Protection → Source of Monopoly
3. Short-Run Equilibrium → With Excess or Sub-normal Profit
4. Long-Run Equilibrium → With Excess or Normal Profit.

Q:7 State Whether the Following Statements are True or false. Give Reasons :

1. A monopolist Sells a Commodity which has a Close-Substitutes.

Ans:- False. Reasons :- Q:1 - C Part 2nd Point

2. In Monopoly the Firm and industry are Same.

Ans: True. Reasons :- Q:1 - C Part - 5th Point

3. A Monopolist is a Price-maker.

Ans: True. Q:1 - A Part

4. Monopoly Can be established by forming a Cartel.

Ans. True. Reasons :- Q:2 - 5th Point

5. Demand Curve of a monopolist is sloping Upward From Left to right

Ans:- False. Reasons:- Q:1 - 7th Point

6. There is No Entry for a New Firm to the monopoly market.

Ans:- True. Reasons :- Q:1 - 4th Point

7. In the Long-Run a monopolist may even settledown with Normal Profit.

Ans:- True. Reasons:- Q:4 B Part - 4th Point

8. When a monopolist earns profit its AC < AR.

Ans. False. Reasons: Q:3 B Part - 1st Point

9. Under monopoly, Sub-optimum, optimum and more than Optimum production is possible.

Ans:- True. Reasons : Q:4 :- C and D Part.