

# MICRO ECONOMICS –II

Unit II



# Monopoly

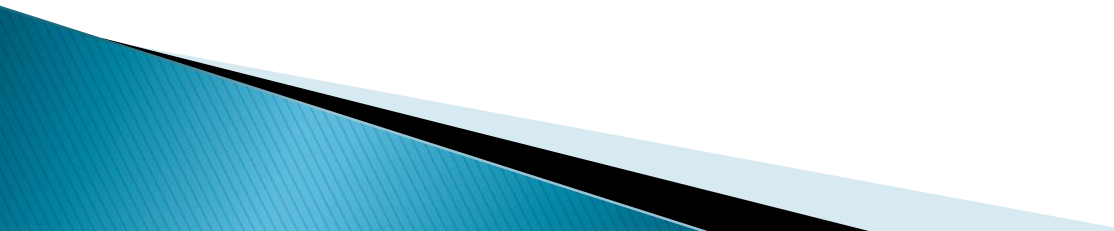
## Meaning

A market structure characterized by a single seller, selling a unique product in the market. In a monopoly market, the seller faces no competition, as he is the sole seller of goods with no close substitute.

## Types of Monopoly

1. **Natural Monopoly**
2. **Social Monopoly**
3. **Legal Monopoly**
4. **Fiscal Monopoly**
5. **Simple Monopoly**
6. **Discriminating Monopoly**
7. **Chosen Monopoly**

# Features

- ▶ Single seller and large number of Buyers
  - ▶ No Close substitute
  - ▶ Firm is the Industry
  - ▶ Barriers on entry of new firms
  - ▶ Producer is price maker
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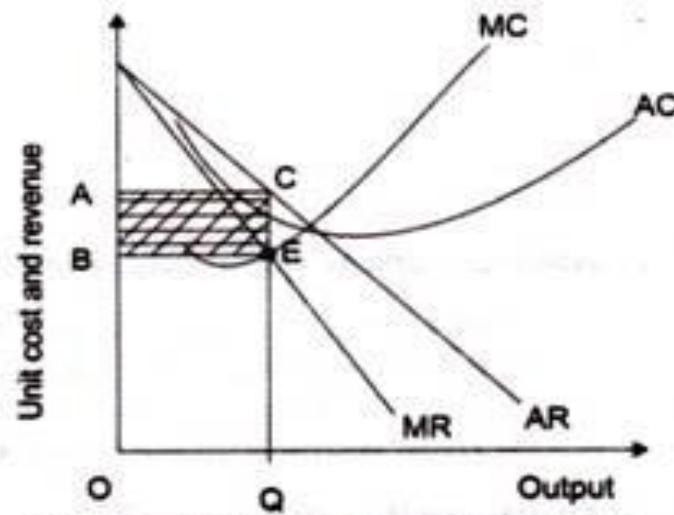
# Equilibrium & Price Determination

A monopolist is in Equilibrium when he produces that much amount of output which yields maximum total profit.

- MR must be equal to MC
- MC must cut MR from below

# Short Run Equilibrium Under Monopoly

- Supernormal profit



**Figure-11: Monopoly Equilibrium**

# Normal profit

-  $AR = AC$

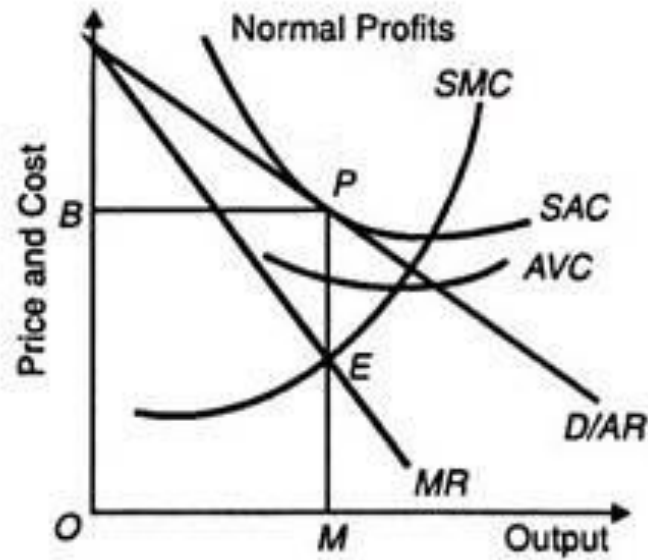
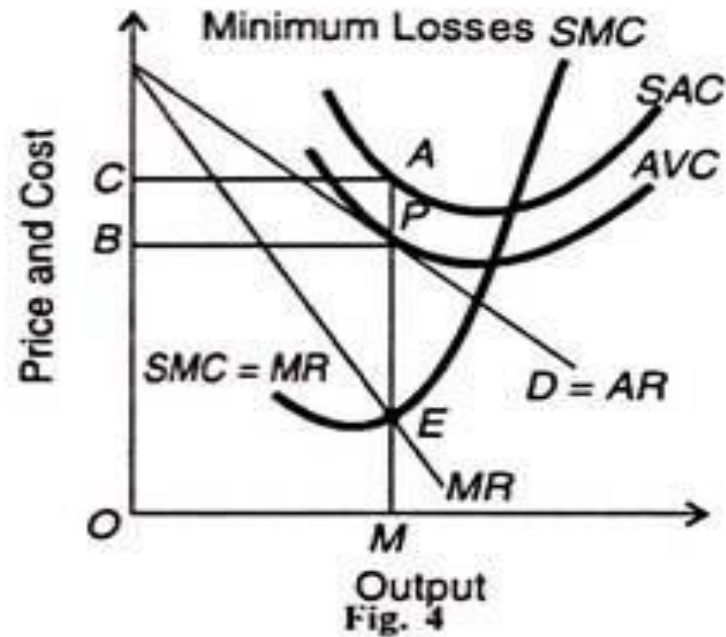


Fig. 3

# Minimum Loss

- Due to depression
- Fall in demand



# Long Run Equilibrium under Monopoly

- ▶ All factors are variable
- ▶ LMC cuts MR from below

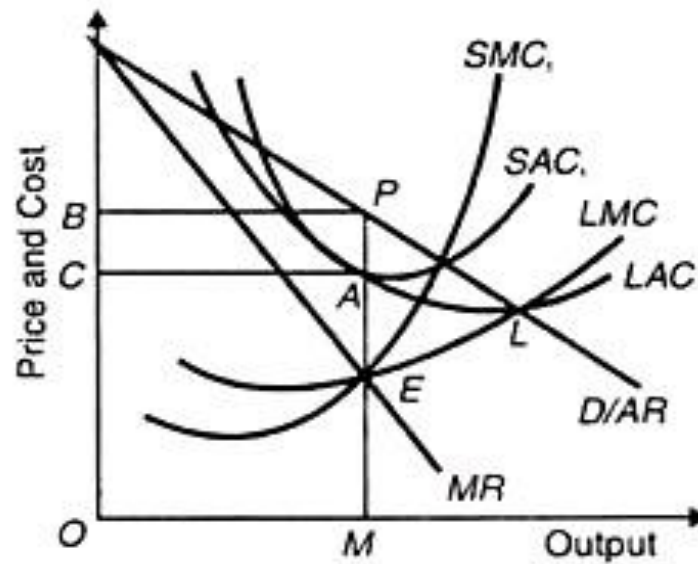


Fig. 5



## Degree of Monopoly Power

- Concentration Ratio
- Profit rate
- Leaners measure
  - Degree of Monopoly Power =  $P - MC / P$

# Discriminating Monopoly

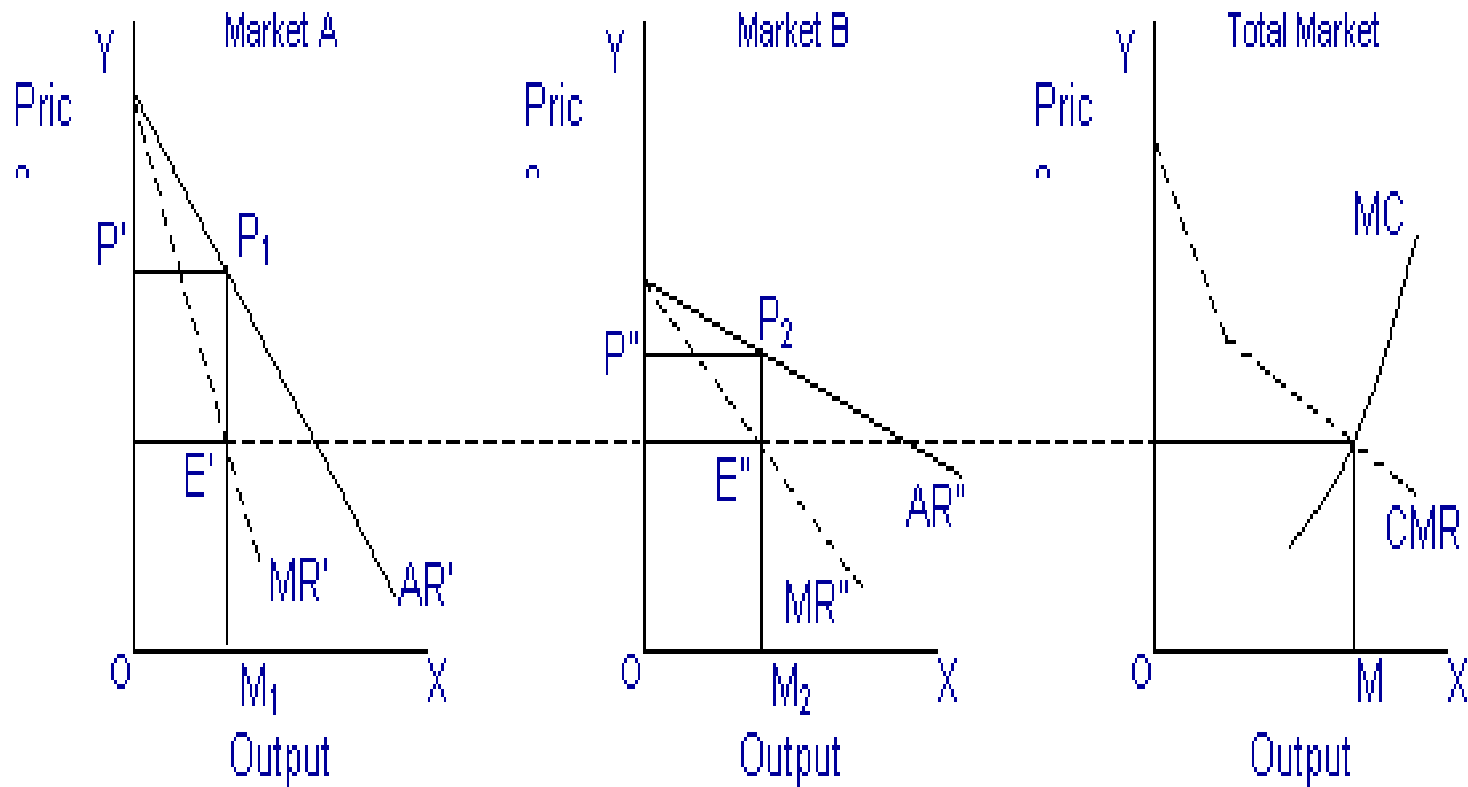
Price discrimination is the practice of charging a different price for the same good or service. There are three types of price discrimination – first-degree, second-degree, and third-degree price discrimination.

*a) Personal:* It is personal when different prices are charged for different persons.

*(b) Local:* It is local when the price varies according to locality.

*(c) According to Trade or Use:* It is according to trade or use when different prices are charged for different uses to which the commodity is put, for example, electricity is supplied at cheaper rates for domestic than for commercial purposes.

# Price Determination under Price Discrimination:



**Price Discrimination in Monopoly**

## References

- ▶ <https://sites.google.com/site/maeconomicsku/home/monopoly>
- ▶ <https://www.economicdiscussion.net/monopoly/price-discriminating-monopoly-economics/25670>
- ▶ <https://www.economicdiscussion.net/monopolistic-competition/price-and-output-determination-under-monopoly/4099>
- ▶ <https://www.microeconomicsnotes.com/monopoly/price-and-output-determination/price-and-output-determination-under-monopoly-6-answers/15832>