

Monopoly

A company with a pure monopoly means that a company is the only seller in a market with no other close substitutes. For many years, Microsoft Corporation had a monopoly on the software and operating systems that are used in computers. Also, with pure monopolies, there are high barriers to entry, such as significant start-up costs preventing competitors from entering the market.

- A monopoly refers to when a company and its product offerings dominate one sector or industry.
- Monopolies can be considered an extreme result of free-market capitalism and are often used to describe an entity that has total or near-total control of a market.
- Natural monopolies can exist when there are high barriers to entry; a company has a patent on their products or is allowed by governments to provide essential services.

Understanding Monopolies

Monopolies typically have an unfair advantage over their competition since they are either the only provider of a product or control most of the market share or customers for their product. Although monopolies might differ from industry-to-industry, they tend to share similar characteristics that include:

- **High or no barriers to entry:** Competitors are not able to enter the market, and the monopoly can easily prevent competition from developing their foothold in an industry by acquiring the competition.
- **Single seller:** There is only one seller in the market, meaning the company becomes the same as the industry it serves.
- **Price maker:** The company that operates the monopoly decides the price of the product that it will sell without any competition keeping their prices in check. As a result, monopolies can raise prices at will.
- **Economies of scale:** A monopoly often can produce at a lower cost than smaller companies. Monopolies can buy huge quantities of inventory, for example, usually a volume discount. As a result, a monopoly can lower its prices so much that smaller competitors can't survive. Essentially, monopolies can engage in price wars due to their scale of their manufacturing and distribution networks such as warehousing and shipping, that can be done at lower costs than any of the competitors in the industry.

A controversial recent example is **software giant** Microsoft. In the late 1990s, Bill Gates' company controlled more than 90 percent of the market for operating systems with its line of Windows products. In 1999, a judge ruled that Microsoft was a monopoly, and ordered the company to break up. After years of appeals and negotiations, Microsoft still exists as a single firm. However, it now faces far more competition in the market, and its position no longer is as dominant.

Duopoly

A duopoly is a situation where two companies own all, or nearly all, of the market for a given product or service. A duopoly is the most basic form of oligopoly, a market dominated by a small number of companies. A duopoly can have the same impact on the market as a monopoly if the two players collude on prices or output. Collusion results in consumers paying higher prices than they would in a truly competitive market.

- A duopoly is a form of oligopoly, where only two companies dominate the market.
- Monopolies, oligopolies, and collusion are all examples of duopolies.
- Visa and Mastercard are a duopoly that dominates the payments industry in Europe and the United States.

In a duopoly, two competing businesses control the majority of the market sector for a particular product or service they provide. A business can be part of a duopoly even if it provides other services that do not fall into the market sector in question. For example, Amazon is a part of the duopoly in the e-book market but is not associated with a duopoly in its other product sectors, such as computer hardware.

Oligopoly

Oligopoly is a market structure with a small number of firms, none of which can keep the others from having significant influence. The concentration ratio measures the market share of the largest firms. A monopoly is one firm, duopoly is two firms and oligopoly is two or more firms. There is no precise upper limit to the number of firms in an oligopoly, but the number must be low enough that the actions of one firm significantly influence the others.

- Oligopoly is when a small number of firms collude, either explicitly or tacitly, to restrict output and/or fix prices, in order to achieve above normal market returns.
- Economic, legal, and technological factors can contribute to the formation and maintenance, or dissolution, of oligopolies.
- The major difficulty that oligopolies face is the prisoner's dilemma that each member faces, which encourages each member to cheat.
- Government policy can discourage or encourage oligopolistic behavior, and firms in mixed economies often seek government blessing for ways to limit competition.