

MARKET STRUCTURE



MONOPOLY

MONOPOLY



- **Definition**

The form of market structure with single seller and many buyers.

- **Assumptions**

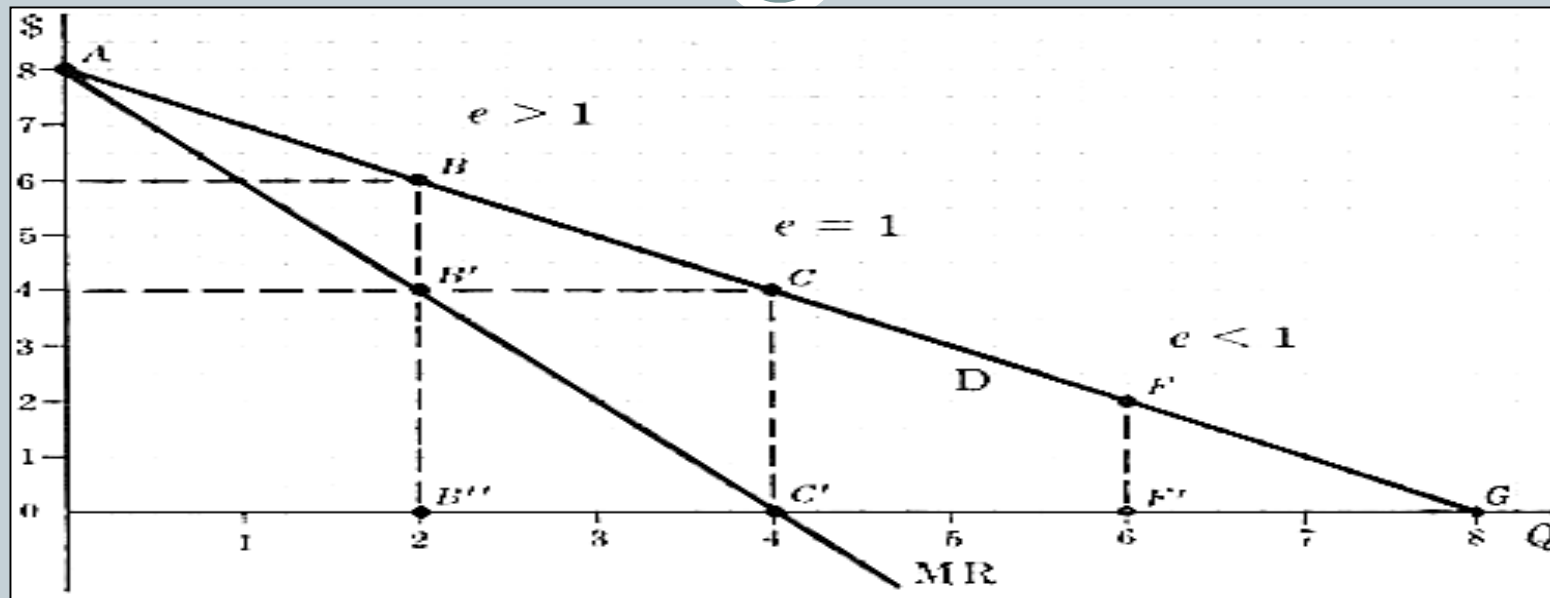
1. There is a single firm selling a commodity to large number of buyers .
2. There are no close substitutes of the product in the market.
3. Thus the firm is the industry and faces the negatively sloped industry demand curve for the commodity.

ASSUMPTIONS



4. Firm is the price maker/setter, firm itself sets the price.
5. Entry of the firms in the market is blocked or there are barriers to the entry of the firms in the market.
6. In order to sell more of the commodity, the monopolist must lower its price.
7. For a monopolist, $MR < P$ and the MR curve lies below the demand D curve.

DEMAND & MARGINAL REVENUE



- The MR curve for any straight-line demand curve is a straight line which starts at the same point on the vertical axis as the demand curve but falls at twice the rate as the D curve.

DEMAND & MARGINAL REVENUE



- When D curve is elastic ($e > 1$),
 $P \downarrow$, $TR \uparrow$, $MR +ve$.
- When D curve is unitary elastic ($e = 1$),
 $P \downarrow$, TR unchanged, $MR = 0$.
- When D curve is inelastic ($e < 1$),
 $P \downarrow$, $TR \downarrow$, $MR -ve$.

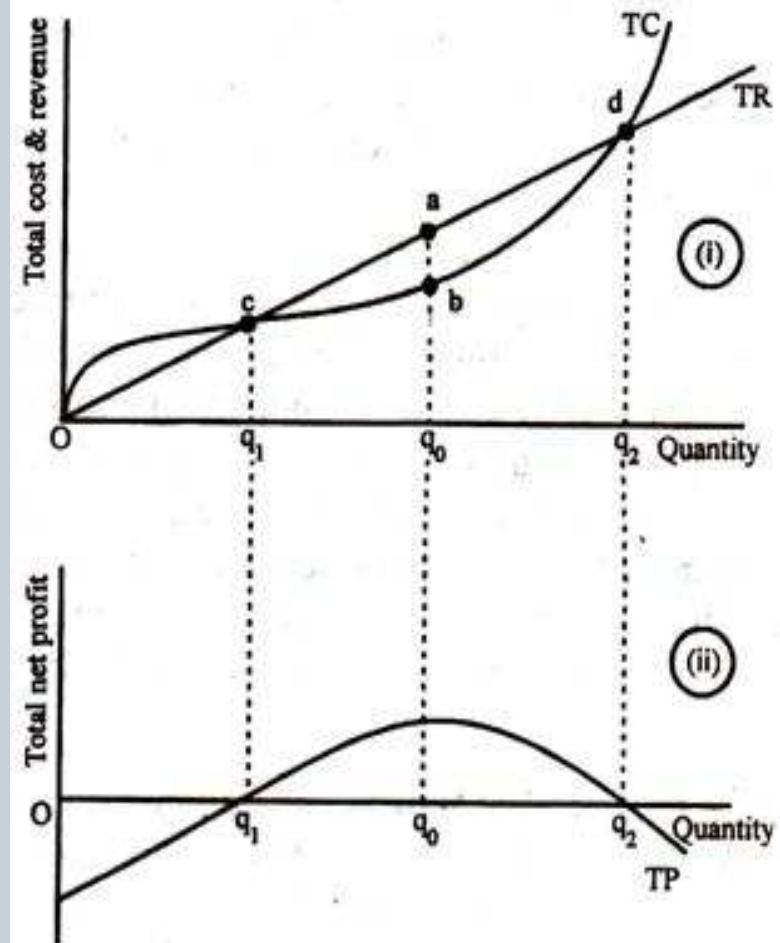
REVENUE CURVES



- In case of monopoly, demand curve is negatively sloped.
- In case of monopoly, price is equal to average revenue.
- For a monopolist, the total revenue curve is downward sloping.

PROFIT MAXIMIZATION

- **Total Approach**
- Profit is maximum when $TR > TC$
- From points c to d, $TR > TC$ so the firm is in profit.
- At q_0 level of output, profit is maximum (points a & b).

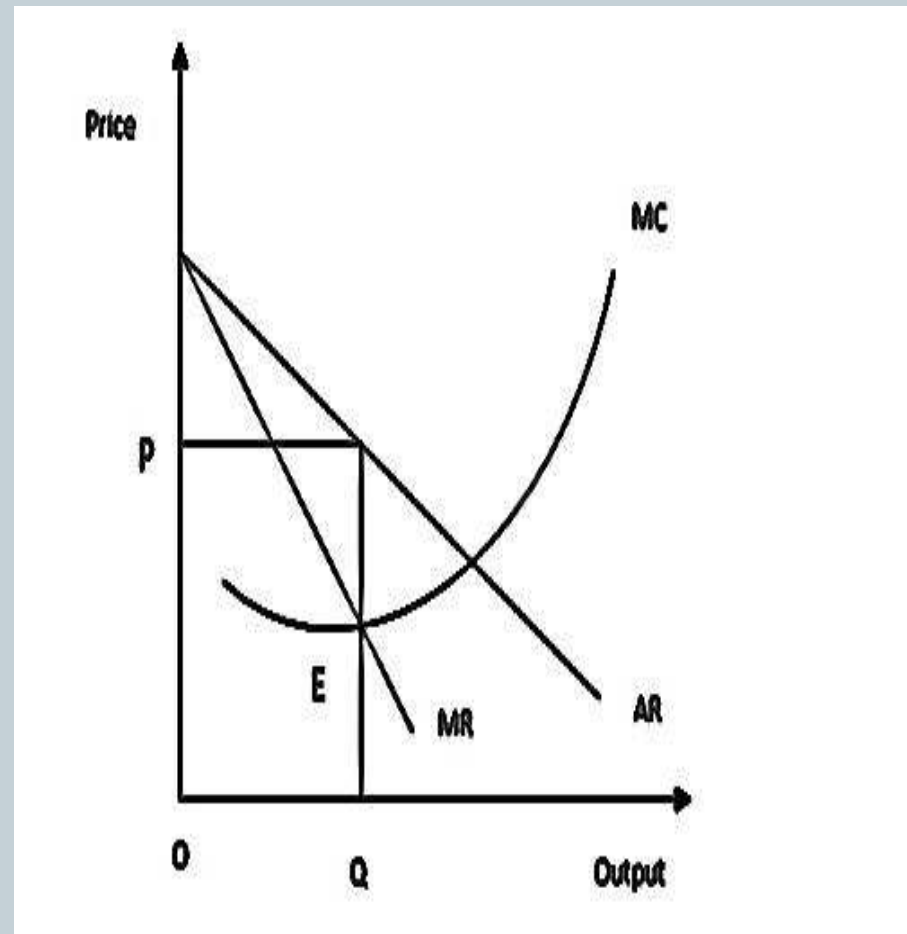


PROFIT MAXIMIZATION

- **Marginal Approach**

Profit is maximum when

- $MR = MC$
- Slope of $MC >$ Slope of MR
- MC curve should cut the MR curve from below.
- At point E, profit is maximum.



PRICE DISCRIMINATION



- Monopolists can increase their TR and profits for a given level of output by practicing price discrimination.
- When the monopolist charges different prices for the same commodity in different markets in such a way that the last unit of the commodity sold in each market gives the same MR. This is referred to as price discrimination

LINKS OF VIDEO LECTURES



- https://youtu.be/PgDrR2wj_Jc
- <https://youtu.be/PEFEnss--mU>
- https://youtu.be/cczABrLd_uA
- <https://youtu.be/s1UQQELPyrC>
- https://youtu.be/A_IV-XArVeE
- <https://youtu.be/zowg9ZPyL38>