

Price and Output Decisions Under Monopoly(Unit-IVth)

Q. What do you mean by Monopoly? How are the price and Output determined under it, explain

Meaning Of Monopoly:

The term 'Monopoly' is made up of two words : 'Mono+Poly'. Mono means single and poly is seller. Hence monopoly implies such a market situation in which only a single seller exists. But this is the literal meaning of the term monopoly. In economics it is used to signify the degree of competition in a market.

Definitions of Monopoly:

A few of the definitions as given by eminent economists are as under

1. "A monopolist is the only producer of a product that has no close substitutes." _ **D.S.Watson**

2. "A monopolist is any seller who is confronted with a falling demand curve for his product" _ **A.P.Lerner**

Charactercteristics of Monopoly:

There are the following **three basic characterstics** of monopoly market:

1. Single seller of the product
2. No close or Good substituties
3. Strong barriers to the entry of new firms

Other Characteristics of Monopoly

1. Large Number of Buyers
2. Free Price Policy
3. Informative Selling costs

Basis of Monopoly Power:

All those factors that help a monopolist to keep the output under his control, which prohibit the entry of new producers in the field, are basically responsible for the establishment of monopoly.

The main causes are:

1. Monopoly over raw materials
2. Legal Monopoly
3. Special legal rights
4. Need of huge capital
5. Secret production Technique
6. Personal Traits
7. BusinessName
8. Price Policy of the Firm
9. Limited market of the product
10. Export -Import policy of the Government
11. Business Combinations
12. Ignorance and Lazyness of Buyers

Merits of Monopoly

1. Economics of large Scale

2. Low selling cost
3. Encouragement of Research
4. Public Utilities
5. Possibility of low price

Demerits of monopoly

1. Consumer's exploitation
2. Obstacle to technical progress
3. Possibility of unfair trade practices
4. Possibility of inefficiency
5. Centralisation of economic power
6. Political corruption

Limitation of Monopoly

1. Fear of Possible competition
2. Fear of Foreign competitors
3. Fear of change in demand
4. Fear of adverse public Opinion
5. Fear of substitutes
6. Fear of Governmental Interference

Types of Monopoly

1. Natural Monopoly
2. Legal Monopoly
3. Social Monopoly
4. Pure Monopoly
5. Cost/Market Monopoly
6. Industrial Voluntary Monopoly

Price Determination Under Monopoly

The basic objective of monopolist is to maximise his 'net monopoly profits'. Maximisation of 'net monopoly profit' does not mean the maximisation of per unit profit rather it means the 'maximisation of total profit'.

According to Mrs. Robinson, "A monopolist should fix the price of his product at the point at which the demand for product is equal to the Marginal Cost of the product." The price and output determination of the monopolist can be analysed under three parts :

1. In the Market
2. In the short period
3. In the long period