Recall perfect competition

1) Homogeneous product.
2) Perfect information.
3) Each firm small.
4) Free entry/exit.
5) [No external costs or benefits] \( \rightarrow \) EFFICIENT

Monopoly

DN: Monopoly = industry producing a good or service with no close substitutes and only 1 supplier

Barriers to entry

1) Legal
   - public franchise
   - patent/trademark
   - property rights
   - inventions and trade secrets

2) "Natural monopoly" (economies of scale)
   - one firm can supply entire market at lowest price

3) Actions by firms
   - limit franchises
   - trade organizations
   - advertising
   - threats/coercion
Why is MR < P?

3) In order to sell 1 more unit, must lower price on ALL units
   – no "price discrimination"

4) Recall that to maximize revenue, set price such that $\eta_D=1$
   – Now consider costs....
   – Monopolist on elastic portion of D curve

Figure 11-2
The Relationship Between Total, Average, and Marginal Revenue and Elasticity of Demand