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1st year. (Hals)

2nd Semester.

Pg-①

classmate

Date

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1. Market Structures.

(a) Theory of a monopoly firm:-

Concept of imperfect competition:-

Imperfect competition is a competitive market situation where there are many sellers, but they are selling heterogeneous (dissimilar) goods. In this market scenario the seller enjoys the luxury of influencing the price in order to earn more profit. If a seller is selling a non-identical good in the market then he can raise the price and earn profit. High profits attract other sellers to enter the market and sellers who are incurring losses, can easily exit the market.

There are four types of imperfect competition markets:- They are-

- ① Monopoly — only one seller.
- ② Oligopoly — Few sellers of goods
- ③ Monopolistic competition (many sellers with highly differentiated product)
- ④ Monopsony (only one buyer of a product)

(In this chapter we are going to study a monopoly firm.)

Meaning of monopoly:- Monopoly means a

single seller market. The pure or absolute monopoly is a market situation in which

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there is a single seller or producer of a product for which there are no close substitutes. The absence of rivals or competitors signifies the existence of monopoly firm. Eg - Railways.

The necessary condition for existence of pure or absolute monopoly involve:-

- 1) Absence of Rivals or Competing firms.
- 2) Absence of close substitutes for the product.
- 3) Existence of strong barriers to the entry of new firms in the market.

Keeping these conditions it is found that pure or absolute monopoly is very rare in real life.

Features of monopoly

3) Absence of close substitutes - There are no

close substitutes for the product of the monopolist. That is the cross elasticity of demand for the product of the monopolist with the product of other firms is zero.

4) Control over supply or price - Since the

monopolist is a single seller he has absolute control over the supply of the commodity.

The monopolist can exercise control over the price of the commodity. The monopolist can raise the price by restricting the supply and vice-versa. The monopolist is a price maker.

5) No distinction between firm and industry -

In the monopoly market, there is only one firm. There is no difference between firm and industry.

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Types of monopoly - The main types of monopoly are: -

① Natural monopoly :- Sometimes a particular raw

material, minerals are primarily found in a particular region. By virtue of natural endowments that country acquires monopoly position. Such monopolies are termed as natural monopolies.

② Legal monopoly : Sometimes certain firms are granted patent rights or copyrights by the

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gont in respect of exclusive production. The monopoly resulting from the patent or copyright law is termed as legal monopoly.

(ii) Social monopoly: - For the production or supply of certain social utility services such as electricity, water, gas etc. gont. Sometimes set up undertaking in the public sector. Such monopolies created by the government to ~~set~~ serve the social interest are called social monopolies.

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