FACTOR MARKETS WITH MONOPSONY POWER:

A monopsony occurs when a firm has market power in employing factors of production (eg labour). A monopsony means there is one buyer and many sellers. It often refers to a monopsony employer — who has market power in hiring workers. This is a similar concept of monopoly where there is one seller and many buyers.

MONOPSONY POWER IN LABOUR MARKET:

In case of a labour markets, monopsonists can exert their buying power in a number of ways including:

1. Setting wages below the market equilibrium.
2. Determining the number of workers they hire — which maybe below the market level of employment.
3. Reducing the security of employment by offering contracts which do not guarantee a particular number of hours of work.

Monopsony in the factor market is said to exist when there is a single buyer of a specific factor of production. For instance, in a particular area, there is only one employer of a specific type of labour, he is monopsonist of that labour.

Monopsony in the labour market also comes into existence when various employers of labour in an area form a collusion so far as recruitment of labour is concerned. While monopsony is very rare in product market, it is more often found in factor markets.

While a monopolist in the product market faces a downward sloping demand curve and can influence the price of the product by varying the level of his output, a monopsonist in the factor market faces an upward sloping supply curve of the factor by varying the levels of its employment.

By restricting employment it can lower the price of the ~~product~~ factor.

And if he wants to buy more amount of the factor, he will have to raise its price. Therefore the supply curve of the factor or the average cost curve (AFC) of the monopsonist will be rising upwards to the right. As the AFC curve will be rising, MFC curve will be above it.

MRP curve as usual will be of a inverted U shape. As we are assuming perfect competition prevails in the product market, the value of marginal product (MRP) and marginal revenue ((MRP) would be equal. The AFC and MFC curves and MRP or VMP curves under these conditions are shown in the fig given below.

Determination of price and employment of a factor under Monopsony when there is Perfect Competition in the Product Market.