2nd Semester R/GE
Pg-(1).

Comparison Between Perfect Competition And Monopoly.

To make a comparison between the two forms of market it is necessary to take into consideration both similarities and differences.

Similarities:— The main similarities are—

(1) **Objectives**:— In both perfect competition and monopoly, the producer is guided by the same objective of maximisation of Profits.

(2) **Identical Products**:— In both the markets products are homogeneous or identical.

(3) **Conditions for equilibrium**:— In both the forms of market the conditions for firms equilibrium is the same MC = MR

(4) **Shape of the cost curves**:— The Shape of the cost curves in both the markets is

Differences:-

The differences between both the forms of market are-

(1) Number of Sellers:- Under monopoly form of market there is only one seller and he does not face any competition. But under perfect competition there are unlimited numbers of sellers.

(2) Shape of the revenue curve:- Under perfect competition the average and marginal revenue curves are perfectly elastic, they co-incide with each other and they are parallel to ox axis. On the other hand the average and marginal revenue curves under monopoly are relatively less elastic. They slope downward from left to right and MR curve lies below AR curve.

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3) Control over supply of Price :- Under Perfect competition, no individual firm has any control over supply or price. The price is given for a particular firm, on the other hand the monopoly firm has complete control over supply or price. The monopolist can fix the price of his product.

(4) Relation between price and MC. Under perfect competition, when equilibrium is determined, price is exactly equal to MC (marginal cost) But under monopoly price is more than MC under equilibrium position.

Perfect competition	Monopoly
MR = MC	MR = MC
MR = AR (Price)	MR < AR (Price)
Price (AR) = MC.	Price (AR) > MC.

(Contd)

5) <u>Stability of equilibrium</u> under perfect competition the stable equilibrium is possible when MC curve cuts MR curve from below. Under monopoly the stable equilibrium can be determined under conditions of increasing, constant and diminishing cost.

(6) <u>Size of the firm:-</u> Under perfect competition the long run equilibrium is determined at the minimum point of AC curve. On the other hand the monopoly equilibrium is determined on the falling part of AC curve.

(7) <u>Entry of firms:-</u> Under perfect competition the new firms can enter the market in the long run. But under monopoly the monopolist obstructs the entry of new firms in the market.

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(8) Long run Supernormal profit under perfect competition a firm can earn super normal profit in the long run only. A monopoly firm on the other hand can earn supernormal profit not only in the short Period but also in the long period.

9. Price discrimination. In case of Perfect competition all the firms produce identical products and they charge the same price for the same product. But a monopolist even in case of identical products can charge discriminating prices from different persons and from different markets.

(Contd.)

(10) Price and output comparison. The monopoly price is higher than competitive price but the monopoly output is less than competitive output. This can be explained with the help of the figures below.

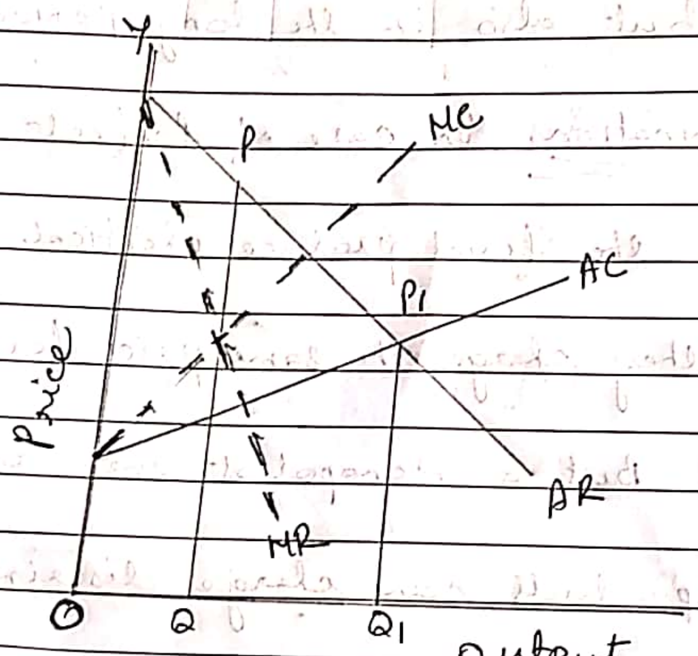

Fig ①.

In this figure AR and MR are the revenue curves and AC and MC are the cost curves. The monopoly equilibrium is determined where MR = MC. The monopoly output is OQ and price is PQ.

(Contd)

under competitive market demand is equal to supply or AR = AC. So competitive output is OQ_1 and Price is P_1Q_1. This shows that monopoly price is higher than competitive price and output less than under competitive market.

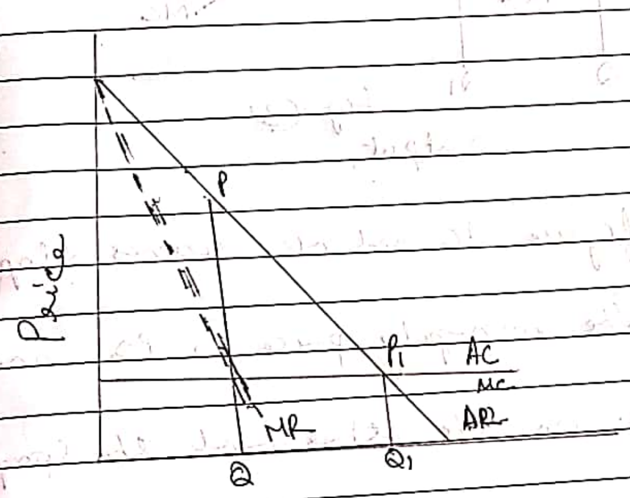

Fig-(2) output

In this fig. AC and MC curves are parallel to X axis. The monopoly output and price are OQ and PQ respectively. The competitive output and price are OQ_1 and P_1Q_1 respectively. Again here the monopoly price is higher output is less ~~and~~ than the competitive output.

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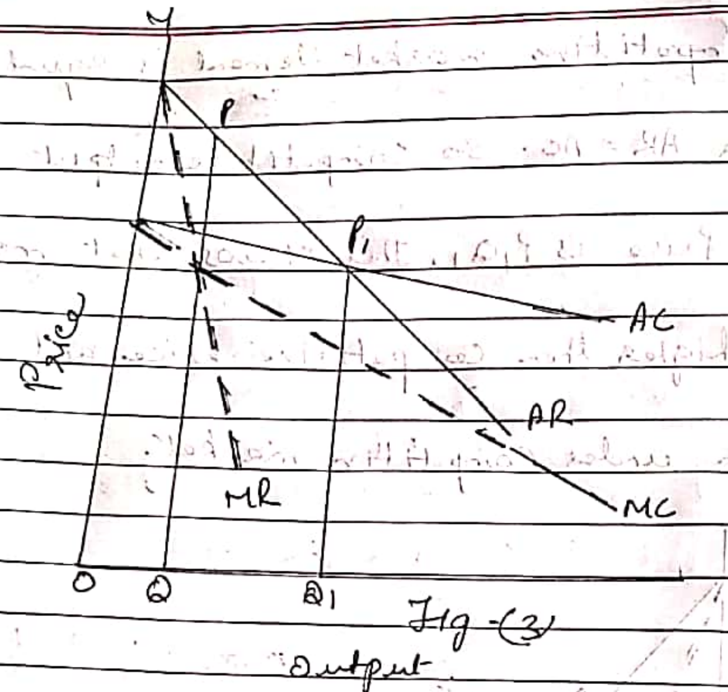

Fig - (3)

In this figure AC and MC curves slope negatively. The monopoly price is PQ and output OQ. On the other hand the competitive price is P_1Q_1 and output is OQ_1. So in all these cases monopoly price is higher than competitive price and monopoly output is lower than competitive output.

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