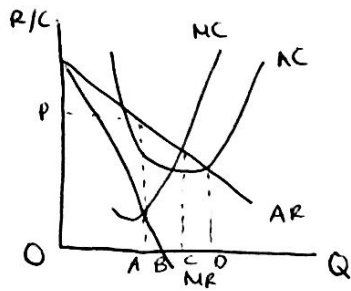


Concentrated markets monopolyRange of monopoly outputs:

- 1) Prof. max. $Q = OA$ where $MR = MC$: monopolists' favoured Q
 - 2) Revenue max. $Q = OB$ where $MR = 0$: TR maximised
 - 3) MC pricing. $Q = OC$ where $MC = AR$: allocative efficient or in absence of external cost, welfare max.
 - 4) AC pricing. $Q = OD$ where $AC = AR$: monopolist making normal profit. lowest P at which firm will remain in industry
- economic theory suggests $P = MC$ but in reality this is hard as it is not easy to determine MC accurately.

Natural monopoly:

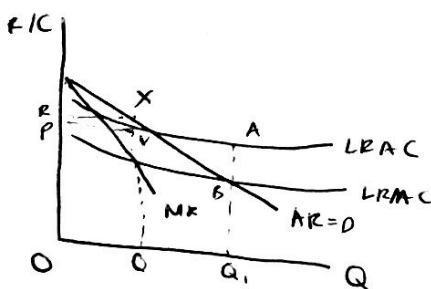
- situation where competition would be inefficient as it would $\uparrow C$ eg. railways & water provision amplify C & use scarce resources (land) inefficiently

Characteristics: 1) high capital C to set up

2) duplication is unnecessary and wasteful

3) NES does not occur until a high Q as economies of scale do not appear to diminish in foreseeable future

Preview from Notesale.co.uk
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- firm is facing economies of scale as $LRMC$ is falling and pulling $LRAC$ down.
- In order to max. prof. monopolist produce at OQ and sell at OR $\therefore$ make supernormal $PRXV$
- unlikely that authorities would allow natural monopoly to act this way and impose price control or regulation
- to be allocatively efficient, produce Q_1 where $MC = AR$ but at this Q $ATC > AR$ and make loss of AB .
- If government require this Q then firm require subsidy AB

Consumer/producer surplus: