How are the price and output determined under monopoly in the short run and long run? Is monopoly price always higher than competitive price?

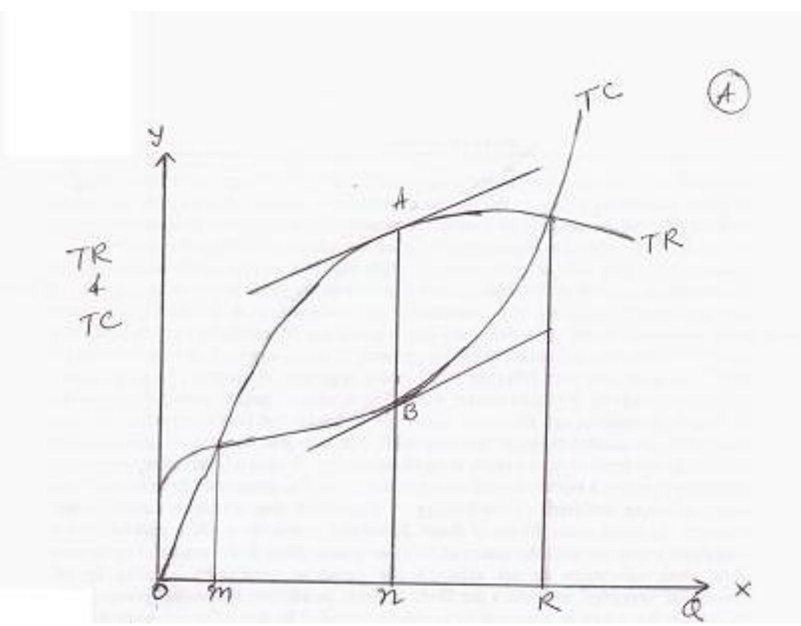
Definition and Sources of monopoly:- Pure monopoly is the form of market organization in which a single firm sells a commodity for which there are no close substitutes. Thus the monopolist represents the industry and faces the industry‟s negatively sloped demand curve for the commodity. As opposed to a perfectly competitive firm a monopolist can earn profits in the long run because entry into the industry is blocked or very difficult. Monopoly is at the opposite extreme from perfect competition in the spectrum or range of market organization. When as the perfect competitor is a price taker and has no control over the price of the commodity it sells, the monopolist has complete control over prices. The monopolist‟s ability to control or affect price is evidence of its monopoly power. Monopoly can arise from several causes 1st, a firm may own or control the entire supply of a raw material required in the production of a commodity or the firm may possess some unique managerial required in the production of a commodity, or the firm may possess some managerial talent. 2nd a firm may own a patent for the exclusive right to produce a commodity or to use particular production process. 3rd economies of scale may operate (i.e. the LR, AC cost curve may fall) over a sufficiently large range of outputs. So as to leave a single firm supplying the entire such a firm is called a natural monopoly. Examples of natural monopolies are electricity, water, gas and transportation companies. 4th some monopolies are created by govt. franchise itself. For examples licenses are often required by local governments to start a radio or television station, to open a liquor store, to operate a taxi, to be plumber, a barber, funeral director, and so on. The purpose of these licenses is to insure minimum standards of competency. A monopolist does not have market power, however, but faces many forms of direct & indirect competition. On a general level a monopolist competes with the sellers of all other commodities in the market. Furthermore while close substitutes do not exist for the particular commodity supplied by the monopolist, imperfect substitutes are likely to exist, in addition the market power of the monopolist (or would be monopolist) is sharply curtailed by fear of government antitrust prosecution by the threats of potential competitors and by international competition.

Short Run Equilibrium (Price and Output):

(i) Total Approach:- Maximizing the positive difference unlike the case of a perfectly competitive firm the monopolist‟s TR curve is not a straight line but, has the shape of an inverted U. The reason is that the monopolist must lower the price to sell additional units of a commodity. The monopolists STC faces upward or increases at an increasing rate past Q=2 because of diminishing returns.

Table TR & SR, TC & Total Profits

Qty	Price Rs.	Total Revenue	Total Cost	Total Profit
0	9	0	6	-6
1	8	8	10	-2
2	7	14	12	2
3	6	18	13	5
4	5	20	19	1
5	4	20	30	-10
6	3	18	48	-30



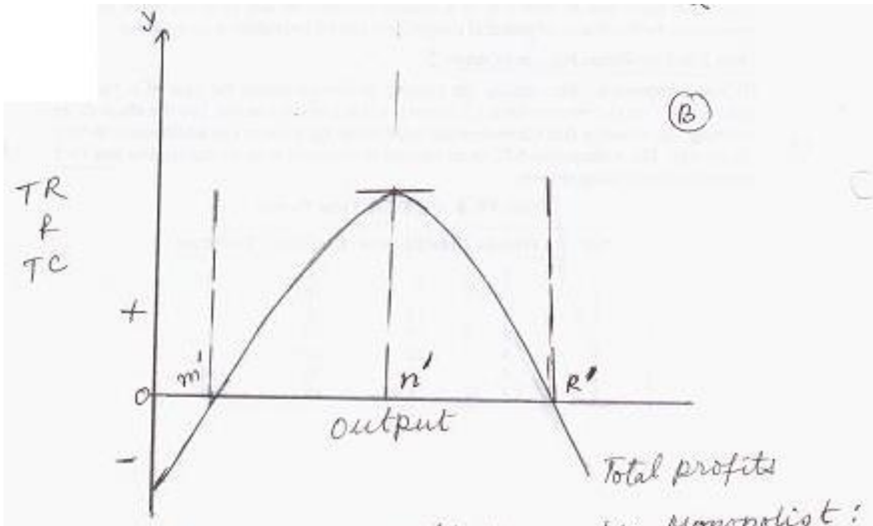


fig: Short Run equilibrim of the Monopolist:
(Total Approach)

In fig. The monopolist TR curve has the shape of an inverted U because the monopolist must lower the commodity price to sell additional units. The STC has the usual shape. Total profits are maximized at N where the positive difference between TR & STC is greatest (AB). This is the point where the TR & the STC curves are parallel (A) and the total profit curve is highest (B). Total profits are positive between M1R1 and negative at other output levels. At Q=O total loss is OS=TFC.