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TYBA – Microeconomics – III – Semester V - 2020-21

Module – 1 – Monopoly

Sources of monopoly - Profit maximising monopoly – Calculation of price, output and profit for monopoly- Price discrimination: First, Second and Third degree- Public policy towards monopoly

Question bank with model answers

Q.1 What is Monopoly? Discuss its features.
Ans: - Introduction: Monopoly is a market condition where there is a single seller selling a commodity which has no close substitute in market. In India, public utility services supplied by the government are the closest examples of monopoly.
Features:
1. Single seller
2. No close substitutes
3. Price maker
4. Entry barriers
5. Firm & industry identical
6. Nature of demand curve (Relatively inelastic demand curve).

Q.2 What are the sources of monopoly power?
Ans: - Introduction: Monopoly is a market condition where there is a single seller selling a commodity which has no close substitute in market. In India, public utility services supplied by the government are the closest examples of monopoly.
Sources of monopoly power:
1. Natural monopoly
2. Control over resources
3. Technology
4. Legal protection
5. Cartel formation
6. Price Policy

Q.3 Explain the price & output determination in the short run under monopoly.
Or
Explain the short run equilibrium of a monopolist.
Ans: - Introduction: A monopolist can control price & output. However he aims at maximizing profit. He decided his output by applying the equilibrium conditions.
Monopolist attain the equilibrium at a point where MR=MC & MC is increasing at the point of equilibrium. A monopolist can attain the equilibrium with excess profit or loss.

Explanation of equilibrium conditions with diagrams (Excess profit & loss).

Q.4 Explain the long run equilibrium under monopoly.
Ans: - Introduction: In the long run, the monopoly firm makes all the necessary adjustments. A monopoly firm usually earns excess profit in the long run. It is also possible for a monopoly firm, to settle in the long run with only normal profit.

Explanation of long run equilibrium with diagram (Normal Profit).

Q.5 What is Price discrimination? Explain its degrees.
Ans: - Introduction: Price discrimination is the act of selling the same commodity at different prices to the different buyers. It is generally resorted by a monopolist. Being a single seller a monopolist can influence the price. He is a price maker. So he can use his power & resorts to price discrimination.
Degrees:
1. First Degree Price Discrimination
2. Second Degree Price Discrimination
3. Third Degree Price Discrimination
(Explain the degrees with the help of examples & diagrams)

Q.6 Explain the public policy towards monopoly.
Ans: - Introduction: Monopoly power of business firms leads to negative economic effects. A monopoly firm usually charges high prices and mostly they discriminate prices. Monopolies lead to the exploitation of consumers as well as factor owners and also labour class. However to prevent or reduce negative effects of monopoly power , government in many countries enacdted anti-monopoly measures or laws in form of public policy to check the negative effects of monopolists.
Public policy is generally defined as a system of laws, regulatory measures or course of action.

Some of the acts used to prevent monopoly power are-
1. Monopolistic and Restrictive Trade Practices (MRTP) Act, 1969 – India
2. Competition Act, 2003 – India
3. Sherman Anti Trust Act, 1890 – USA
4. Clayton Anti Trusty Act, 1914 – USA
5. Fair Trade Act, 1947 – Japan
6. Anti Monopoly Law 2007 – China

Some of the regulatory bodies are –
1. RBI
2. SEBI
3. IRDA
4. PERDA
5. RERA

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