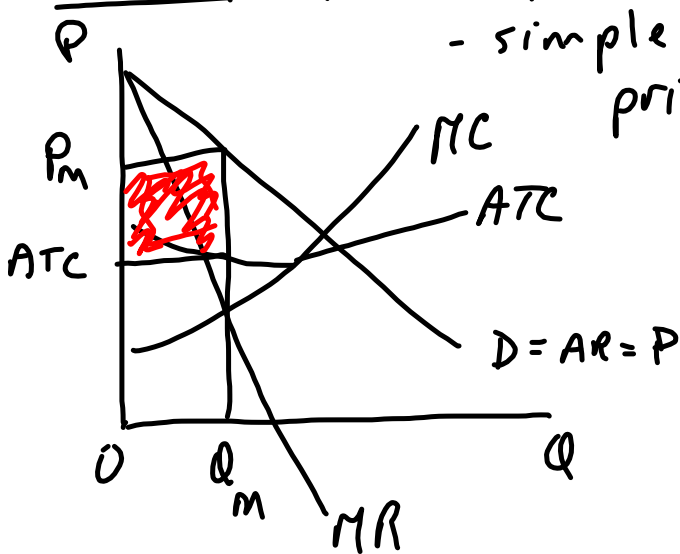


Monopoly - Chap 15



- simple monopoly - same price to all buyers

$$MR = \frac{\Delta TR}{\Delta Q} = MC = \frac{\Delta TC}{\Delta Q}$$

$$\pi = TR - TC$$

$$= P_m \cdot Q_m - ATC \cdot Q_m$$

$$= \underbrace{(P_m - ATC)}_{\text{markup}} \cdot Q_m$$

$\pi \rightarrow$ encourage entry (imitate)
 - entry limited by barriers to entry

Merger - acquire competitor
(horizontal merger)

Standard Oil of N.J. (Esso → Exxon)
- merger → threat of price ↑ transportation

Structure - 1 firm

Conduct - price > cost (markup)
- merger

Performance - ITs

"Trust Busting"

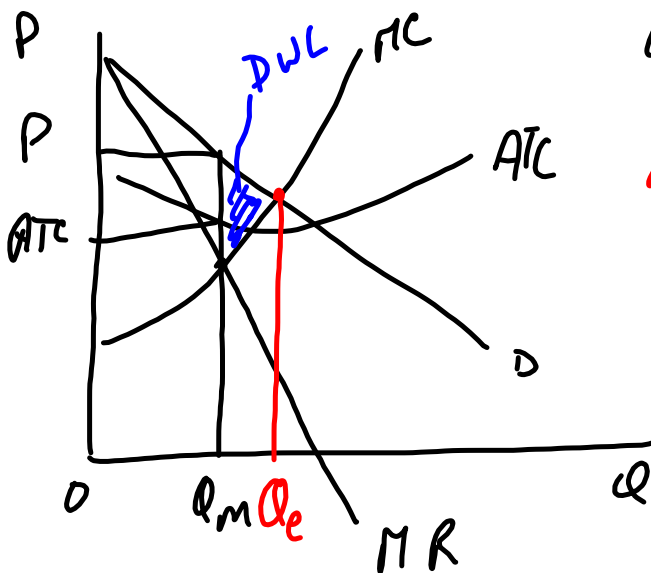
1890 Sherman Anti-Trust Act

mergers reviewed & rejected by
Dept of Justice if deemed anti-competitive

Are monopolies bad? -

P ↑

Inefficient - allocative inefficient



at Q_m $WTP(D) >$
 $WTA(MC)$

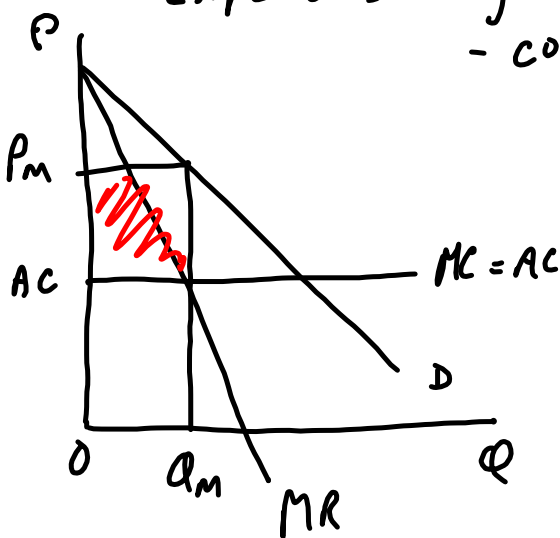
at Q_e $WTP = WTA$
 $D = MC$

$Q_m < Q_e$

DWL - dead weight loss
Loss of CS + PS
(diff between D + MC
(supply WTA))

Resource cost of monopoly

- expenses to get to be monopolist
- constant cost (assumption)
 $MC = AC$



- π - expected to be 1 million \$
- suppose 10 potential monopolists - each equally capable
- Prob winning = 0.10

Expected value = $0.10 \cdot \$1\text{mill} + 0.90 \cdot 0$
 $= \$100,000$

Total spending = \$1 million

Potent Races

Rent Seeking

spending on not directly productive

Lobbying - gov't right to be a monopolist
 - Town → grant 2 licenses to run bars
 5 potential owners - campaign fund
 - favorite charity
 = brown bag (cash)

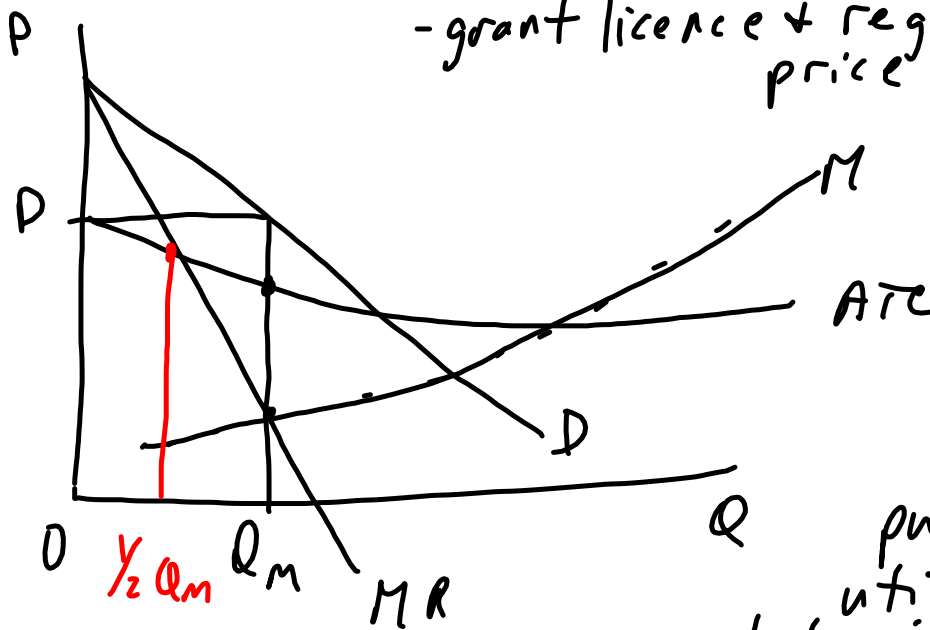
Rent Seeking - Anne Krueger

Lobby - tariff
 - franchise license } exclude competition

DWL - Harberger - est 1980s
total DWL to monopoly 3% GDP
- rent seeking - larger expense than
DWL

- trade secrets alternative

Natural Monopoly - economies of scale
- grant licence + regulate price



public utilities
electricity
gas
cable TV