The Logic of Monopoly

Notes

"MONOPOLY" TARGETS

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A MONOPOLIST'S DEMAND CURVE

The demand curve faced by a monopolist differs from the demand curve faced by a perfectly competitive firm.

1) **Perfect Competition**

 A)

 B)

2) **Monopoly**

 A)

 B)

MARGINAL REVENUE IN MONOPOLY

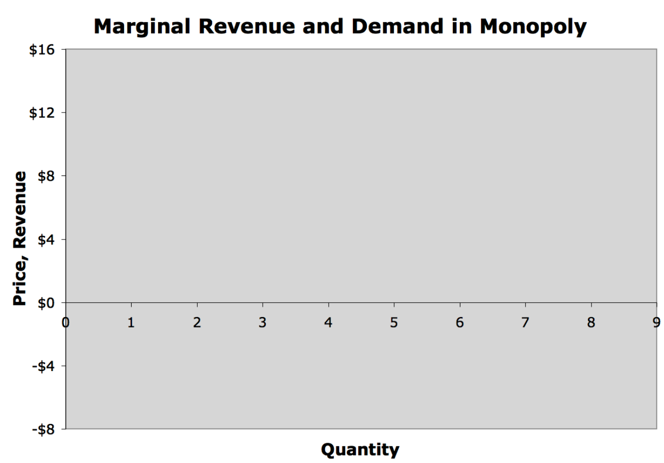
The monopolist's MR curve also differs from the perfect competition MR curve.

1)

2)

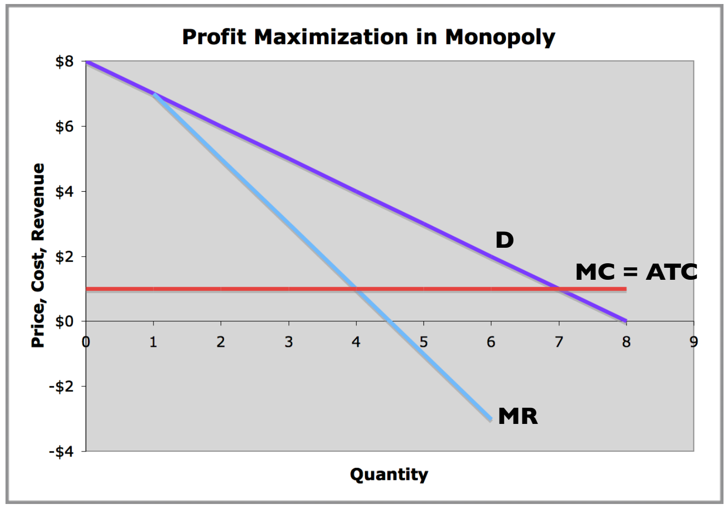
3)

4)



PROFIT MAXIMIZATION IN MONOPOLY

Let's assume a monopoly has no fixed costs and marginal cost is always $1.



1)

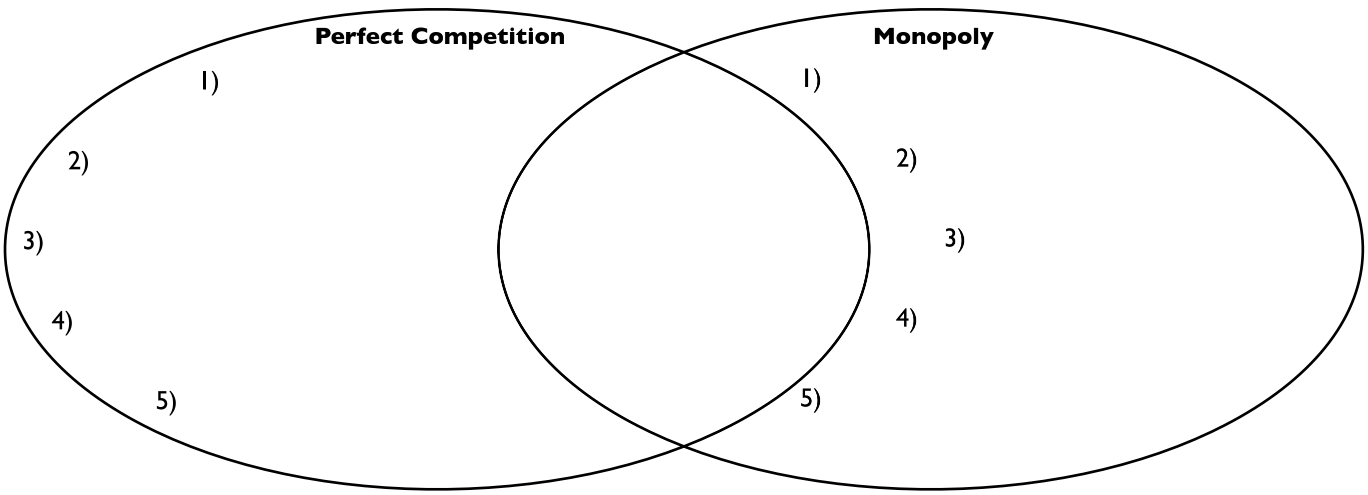
2)

3)

4)

PERFECT COMPETITION VS. MONOPOLY

Use the Venn Diagram below to compare these two market structures.



PRICE DISCRIMINATION

Price discrimination is the practice of charging different customers different prices for the exact same good or service.

1)

2)

3)

HOW PRICE DISCRIMINATION WORKS

Price discrimination works by charging different prices to customers based on their elasticity of demand.

1)

2)

3)

4)