MONOPOLY

DEFINATION AND FEATURES

MONOPOLY

- **DEFINATION**
- Monopoly is market structure in which there is single producer or seller producing or selling a product which has no close substitute in the market and no firm is allowed to enter the market.

MONOPOLY

❖ **Features:** Following Features

1. **Single Seller:** Literally monopoly means single seller.

   ‘Mono’ means single, and

   ‘poly’ means seller.

- Form may be an individual owner or a single partnership or a joint stock company

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2. **Absence of Close Substitutes:**

- If there are products produced by the other firms, then there will be competition among these firms.
- the cross elasticity of demand between the product of the monopolist and the product of any other firm must be very small.
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3. **Barriers to Entry of Other Firms:**

- The first two conditions would be ensured only if there is complete barrier to entry of the other firm into the industry.
- The barrier may be economic; institutional or artificial in nature.
- The barrier is so strong that it prevents entry of all firms except the one that is already in the field.

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❖ **Reasons for the Emergence of Monopoly:**

The main causes that lead to monopoly are the following.

1. Firstly, ownership of strategic raw materials, or exclusive knowledge of production techniques.
2. Patent rights for a product of for a production process.
3. Government licensing or the imposition of foreign trade barriers to exclude foreign competitions.
4. The size of the market may be such as not to support more than one plant of optimal size.

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- Substantial economies of scale, which require only a single plant, if they are to be fully reaped. For example, in transport, electricity, communications, there are substantial economies which can be realized only at large scales of output.
- The size of the market may not allow the evidence of more than a single large plant In these condition it is said that the market creates a **Natural Monopoly**

5. Limit–pricing policy by existing firm combined with other policies such as heavy advertising or continuous production differentiation which render entry unattractive This is the case monopoly established by creating barriers to new to competition.

To be Continued