

OUTLINE — September 26, 2018

- Market Failure
- Monopoly
- Oligopoly
- Monopolistic Competition

*Midterm 1 is tomorrow, 8:10-9:30 pm
Today's new material will be on MT 2*

Big Bottom Line of First Third of Course

- In perfect competition,
in the long run,
firms produce profit-maximizing quantity
where $p = MC$
and ATC is minimized

Review Slides **Market Failure** Monopoly Oligopoly Monopolistic Competition

“Market Failure”

- If any of these assumptions isn't satisfied...
 - perfect competition
 - profit maximization
 - utility maximization
 - well-defined private property rights
 - full information
- ...then markets “fail” . . .
 - . . . to produce q^* where $p = MC$

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Market Failure

- Four sources of market failure
 - Imperfect Competition
 - Externalities
 - Public Goods
 - Imperfect (Asymmetric) Information

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Market Failure: Imperfect Competition

- Monopoly
 - One firm
 - No close substitutes
 - Barriers to entry
 - Patents
 - Government franchises
 - Owning scarce resource
 - Economies of scale
 - Illegal means

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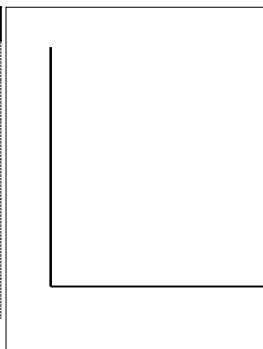
Monopoly

- Goal: $\max \text{ profit } \pi = TR - TC$
- Max profit when **choose q so that MR = MC**
- But, MR is not constant for a monopolist

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Profit Maximization

P	q_d	TR	MR
10	0		
9	4		
8	8		
7	12		
6	16		
5	20		
4	24		



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Marginal Revenue, in general



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Choose q so that $MR = MC$



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Profit Earned by (single-price) Monopolist



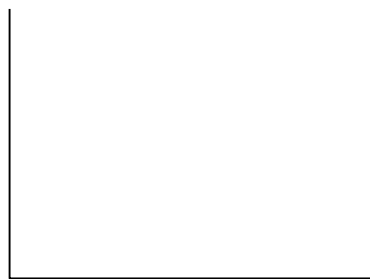
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Monopoly vs. Perfect Competition



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Price Discrimination by a Monopolist



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Oligopoly

- Few firms in a concentrated industry
 - top 4 firms sell over 90%
 - power to influence price
- Product may be homogeneous or heterogeneous
- Key: inter-dependence of firms
- *Suggestion: Take Econ 121*

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Monopolistic Competition

- Lots of firms
- No barriers to entry/exit
- *Heterogeneous* product

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Profit Maximization

- Max profit when **choose q so that $MR = MC$**



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Entry erodes profit



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Long-Run Equilibrium



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Effect of increased variable cost?



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