

# Topic: Monopoly

## Starter Activity: Walking Debate

1. All monopolies take advantage of consumers by charging high prices.
2. Monopolies have no incentive to produce new products because there is no competition.
3. Google Maps should be a monopoly - one reliable app is better than five confusing ones.
4. Pharma / Pfizer should be allowed to charge high prices and make SNPs to cancer research.
5. Healthcare should be a monopoly: it should not be broken up.
6. Meta should not be allowed to buy other firms eg tik tok (choice and creativity)
7. Bin collecting companies should be monopolies – it would be more efficient if they had economies of scale / One bin company per area is more efficient than having several competing trucks.
8. Patents are a positive barrier to entry e.g Moderna vaccines and fund new medical breakthroughs.
9. Water in Ireland should be a monopoly
10. Netflix should be broken up because if it dominates streaming, consumers face fewer choices and higher prices.

### Additional resources

- Series: Billion Dollar Code (Netflix)
- Story behind the board game [monopoly](#)

- **Monopoly** is a market structure in which there is only one producer/seller in the industry.
  - Eg. An Post, Irish Rail, Irish Water, a sole pub in your village.
  - Watch monopoly [video](#)

### Characteristics of a Monopoly

Characteristic	Explanation
<b>One Firm = the Industry</b>	<ul style="list-style-type: none"> <li>● Only <b>one</b> firm exists within the industry so there is no distinction between the firm and industry.</li> <li>● This firm supplies the output of the <b>entire industry</b>.</li> </ul>
<b>Price Setter / Maker</b>	<ul style="list-style-type: none"> <li>● A firm can control either <b>price or output</b>, but not both.</li> <li>● If it sets the price the output produced will be determined by consumers.</li> <li>● If it sets the output the price will be determined by the market.</li> </ul>
<b>Barriers to Entry Exist</b>	<ul style="list-style-type: none"> <li>● If a monopoly market structure is to exist in the long run there cannot be freedom of entry into the industry.</li> <li>● These barriers <b>prevent the entry of new firms</b> into the industry, which would threaten the position of the monopolist.</li> </ul>
<b>Each firm attempts to maximise profits</b>	<ul style="list-style-type: none"> <li>● Firms produce where <b>MC = MR</b>. Each firm will attempt to minimise costs of production.</li> </ul>

### Barriers to Entry

Barrier	Explanation
<b>Legal/Statutory Monopoly</b>	<ul style="list-style-type: none"> <li>● The government grants exclusive rights to a firm to supply a good or service, creating a barrier for others.           <ul style="list-style-type: none"> <li>○ E.g <b>Irish Water</b>: Has the statutory right to supply water services in Ireland.</li> <li>○ <b>E.g An Post</b>: Held a monopoly on certain postal services for years.</li> </ul> </li> </ul>
<b>Patent/Copyright</b>	<ul style="list-style-type: none"> <li>● A firm holding a patent or copyright gains exclusive control over a product or production process, barring competitors.           <ul style="list-style-type: none"> <li>○ E.g <b>Pfizer</b>: Holds patents for pharmaceutical drugs, such as those used in COVID-19 vaccines</li> <li>○ E.g <b>Walt Disney</b>: Holds copyrights on popular characters and stories, preventing competitors from using them.</li> </ul> </li> </ul>
<b>Start Up Costs</b>	<ul style="list-style-type: none"> <li>● Some industries require a significant <b>initial investment</b>, discouraging competitors due to high start-up costs.           <ul style="list-style-type: none"> <li>○ E.g <b>Electricity Production</b>: Companies like the ESB require substantial infrastructure and equipment investments.</li> </ul> </li> </ul>
<b>Mergers/Takeovers</b>	<ul style="list-style-type: none"> <li>● A firm can eliminate competition by merging with or acquiring rival companies, consolidating its monopoly power.           <ul style="list-style-type: none"> <li>○ E.g <b>Amazon and Meta</b> acquiring smaller retailers to strengthen its monopoly.</li> </ul> </li> </ul>
<b>Brand Proliferation</b>	<ul style="list-style-type: none"> <li>● Heavy advertising convinces consumers there is no substitute for a specific brand, discouraging competitors.           <ul style="list-style-type: none"> <li>○ E.g <b>Apple</b> secures market dominance with strong brand loyalty for products like iPhones, despite competing alternatives.</li> </ul> </li> </ul>

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- (a) (i) Identify, with a tick (✓), which one of the following firms exist in a monopoly market structure in Ireland.

Name of Organisation	Tick (✓) which is a monopoly structure
Aer Lingus	
Iarnród Éireann (Irish Rail)	
VHI	

- (ii) Explain the term **monopoly in economics**.


OR

- (b) Outline two characteristics of a monopoly market.

1.	
2.	

Monopoly Diagram: Long Run

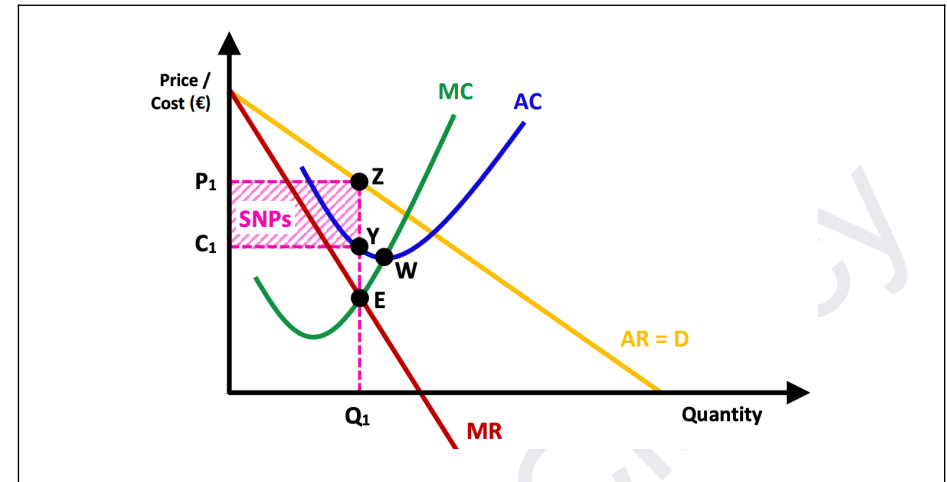


Diagram Analysis

<b>E – Equilibrium</b>	<ul style="list-style-type: none"> <li>The firm produces at the <b>profit-maximising level of output</b>, where: <math>MC = MR</math> at <math>Q_1</math>.</li> <li>At this output: <math>AR (P_1) &gt; AC (C_1)</math></li> <li>Can continue to produce here because of <b>barriers to entry</b></li> </ul>
<b>P – Price and output</b>	<ul style="list-style-type: none"> <li>Price is <math>P_1</math> and Quantity produced is <math>Q_1</math></li> </ul>
<b>C – Costs</b>	<ul style="list-style-type: none"> <li>Since <math>AC &gt; AR</math>, the firm <b>covers its total costs</b> and is making a SNP.</li> </ul>
<b>S – Supernormal profits / losses</b>	<ul style="list-style-type: none"> <li>The monopoly is making <b>SNP</b> because <math>AR &gt; AC</math> at the profit-maximising level of output.</li> </ul>
<b>S – Scarce resources</b>	<ul style="list-style-type: none"> <li>The firm is <b>not producing at the minimum point of the AC curve</b> and is therefore <b>productively inefficient</b>.</li> </ul>

## Advantages of Monopoly

Advantage	Explanation
<b>Economies of Scale</b>	<ul style="list-style-type: none"> <li>Monopolies can achieve significant cost advantages as they grow larger, lowering their average costs due to economies of scale.</li> <li><b>Example:</b> Pharmaceutical companies like Pfizer can mass-produce drugs at lower costs due to their large-scale operations.</li> </ul>
<b>Reduced Use of Scarce Resources</b>	<ul style="list-style-type: none"> <li>Monopolies prevent the duplication of resources that might occur in competitive markets, leading to more efficient use of scarce resources.</li> <li><b>Example:</b> In telecommunications, a single provider laying infrastructure (e.g., broadband cables) avoids unnecessary duplication by multiple companies.</li> </ul>
<b>Potential for Innovation and R&amp;D</b>	<ul style="list-style-type: none"> <li>The <b>supernormal profits (SNPs)</b> earned by monopolies can be reinvested into research and development, fostering innovation and improving product quality.</li> <li><b>Example:</b> Tech giants like <b>Google</b> and <b>Microsoft</b> use their profits to develop new technologies and improve existing services, benefiting consumers.</li> </ul>

## Abuse of Monopoly Power

	Abuse of Monopoly Power	Government / Anti-Trust Intervention
1	<b>Google</b> favouring its own shopping results in search, reducing consumer choice	EU fined Google €2.4 bn and required changes to restore competition
2	<b>Microsoft</b> using Windows dominance to push Media Player and Office, blocking rivals	EU fined Microsoft and ordered unbundling options for Windows users
3	<b>AstraZeneca</b> extending patents to delay generic drugs, limiting affordable alternatives	EU fined €60 m for unfair patent practices
4	<b>Netflix</b> dominating streaming markets, potentially limiting consumer choice	Proposed break-up or stricter regulations in EU
5	<b>Amazon</b> has been accused of using predatory pricing tactics to drive smaller competitors out of the e-commerce market.	The EU has begun examining Amazon's pricing strategies to ensure they are fair,
6	<b>Yoplait</b> & other yoghurt producers in France formed a price-fixing cartel, jointly setting prices for fresh dairy products and reducing competition.	French Competition Authority fined 11 companies €192.7 million for the yoghurt cartel.
7	<b>De Beers</b> diamond cartel controlled ~90% of rough diamond supply globally and managed prices for decades.	U.S. antitrust fined: \$295 million and prevented De Beers from monopolising rough diamonds and fixing prices

## Ways Governments Can Intervene

Watch [video](#)

### 1. Regulation

- Regulators monitor dominant firms to ensure they do not abuse their market power or exploit consumers.
- Example: Regulators like the Commission for Regulation of Utilities (CRU) in Ireland set price caps for electricity providers to protect consumers.

### 2. Deregulation

- Deregulation involves **removing barriers to entry**, allowing new firms to enter the market and compete with dominant players.
- Example: The Irish energy market was deregulated, enabling firms like Energia and Bord Gáis Energy to compete with ESB.

### 3. Legislation

- Laws are introduced to prohibit **anti-competitive practices**, such as price fixing or predatory pricing.
- Example: The EU Competition Law fines companies like Google for abusing market dominance to ensure fair competition

### Effects of Deregulation

Effect	Explanation
<b>Lower Prices</b>	<ul style="list-style-type: none"> <li>Increased competition drives firms to reduce prices, benefiting consumers.</li> <li>Example: Deregulation of the mobile phone market in Ireland led to lower call and data charges</li> </ul>
<b>Increased Services</b>	<ul style="list-style-type: none"> <li>New entrants increase supply, improving access to goods or services.</li> <li>Example: More broadband providers in Ireland increased availability in rural areas.</li> </ul>
<b>Employees in the Industry</b>	<ul style="list-style-type: none"> <li>Existing firms may cut costs, including reducing their workforce, to remain competitive.</li> <li>Or new entrants create additional employment opportunities.</li> </ul>

### Comparison of Market Structures

Feature	Monopoly	Monopolistic Competition	Perfect Competition
<b>No. of firms</b>	One	Many	Many
<b>Product</b>	Unique	Differentiated	Identical
<b>Price control</b>	Price maker	Price maker (some control)	Price taker
<b>Barriers to entry</b>	High	Low	None
<b>Demand curve</b>	Downward sloping demand curve	Downward sloping demand curve	Horizontal demand curve
<b>EQ</b>	EQ: $MC = MR$ and $AR > AC$	EQ: $MC = MR$ and $AR = AC$	$MC = MR$ and $AR = AC$
<b>Long run profit</b>	Earn SNPs long run	Earn Normal Profits long run	Earn Normal Profits long run
<b>Efficiency</b>	Neither productively nor allocatively efficient	Neither productively nor allocatively efficient	Productively & allocatively efficient



(iii) Explain the term privatisation.

Explanation:

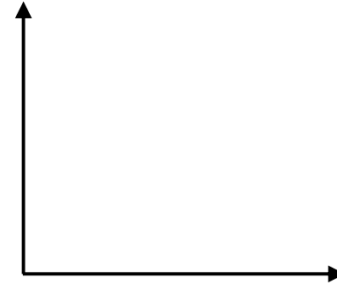
(iv) A government could choose **privatisation** of a semi-state body over deregulation. Outline one reason **why** a government may choose to privatise a semi-state body instead of deregulation.

Explanation:

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(ii) Explain, with the use of a fully labelled diagram, the long-run equilibrium position of a monopoly firm.



Explanation:

(iii) Explain two changes in market conditions (characteristics) which allows a market to move from a **Monopoly to an Oligopoly**.

1.
2.



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