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Imperfect Competition and Market Power
Market Power – the ability to raise prices without losing all of their demand.
Pure Monopoly – industry with one firm, significant barriers to entry, and unique product (no close substitutes).
Barrier to Entry – something that prevents new firms from joining the industry.

Types of Barriers to Entry:
1. Government Franchises
2. Patents
3. Significant Economies of Scale
4. Ownership of factors of production

Price and Output Decisions in Pure Monopoly
The demand curve facing the firm is the market demand. It therefore is downward sloping. All downward sloping demand curves have MR curves that fall below the demand curve.

Show the monopolists profit maximizing price and quantity graphically.
It is possible for a monopolist to have economic losses.
There is no supply curve for a monopolist.

Collusion – the act of working together to restrict output. Cartels act like monopolists in the output market.

Social Costs of Monopoly
Perfect Competition and Monopoly Compared
Show that output is too low and prices are too high with a monopoly.

Show Loss of Consumer surplus under monopoly with horizontal AC curve.
Price Discrimination
Price Discrimination – charging different prices to different buyers
Perfect Price Discrimination – firm charges maximum amount a buyer is willing to pay for each unit produced.

Show that with perfect price discrimination the MR curve is the Demand curve. Total revenue is then calculated by TR = Σ MR.

Antitrust Laws
Sherman Act – 1890, declared every contract or conspiracy to restrain trade illegal and declared any attempt at monopoly a misdemeanor.
Rule of Reason – 1911, determine whether a particular action was illegal within the terms of the Sherman act.
Clayton Act – 1914, strengthens the Sherman act. Outlawed specific monopolistic behaviors such as tying contracts, price discrimination, and limited mergers.
Federal Trade Commission – 1914, investigate the structure and behavior of firms engaging in interstate commerce. Determine what constitutes unlawful behavior and issue “cease and desist” orders.
Wheeler-Lea Act – 1938, extended the FTC act to include “deceptive” as well as “unfair” methods of competition.

Regulation
Natural Monopoly – industry that has extremely large economies of scale, such that one firm is more efficient than 2 or more.

In the past the government has regulated such industries. The regulation price could be at either:
1. The socially optimal price (P = MC)
2. The fair return price (P = AC)