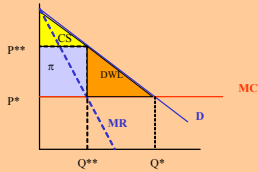


Monopoly versus Competition



Comparison to Competitive Equilibrium

- A consumer sets

$$MRS = P$$

Comparison to Competitive Equilibrium

- A consumer sets

$$MRS = P$$

- A competitive firm sets

$$MC = P$$

Comparison to Competitive Equilibrium

- A consumer sets

$$MRS = P$$

- A competitive firm sets

$$MC = P$$

- Of course,

$$MC = MRT$$

Comparison to Competitive Equilibrium

$$MRS = P$$

Comparison to Competitive Equilibrium

$$MRS = P = MC$$

Comparison to Competitive Equilibrium

$$MC = MRT$$

$$MRS = P = MC = MRT$$

Comparison to Competitive Equilibrium

$$MC = MRT$$

The basic requirement for economic efficiency. The rate at which the consumer is willing to substitute apples for bananas (say) is just equal to the rate at which we can transform apples into bananas.

How the Monopolist Does It

$$MRS = P$$

$$MR = MC$$

How the Monopolist Does It

$$MRS = P$$

$$MR = MC$$

$$P > MR \Rightarrow P > MC$$

How the Monopolist Does It

$$MRS = P$$

$$MR = MC$$

$$P > MR \Rightarrow P > MC$$

$$MC = MRT$$

$$MRS > MRT$$

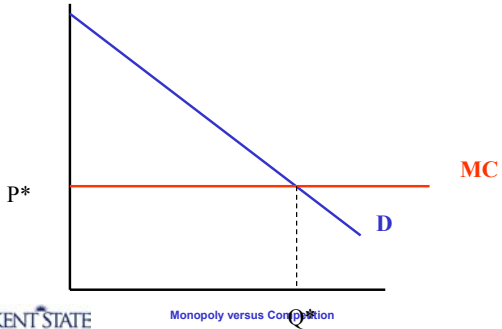
How the Monopolist Does It

The monopolist violates the fundamental requirement for economic efficiency. Price is above Marginal Cost (MRT)

$$MC = MRT$$

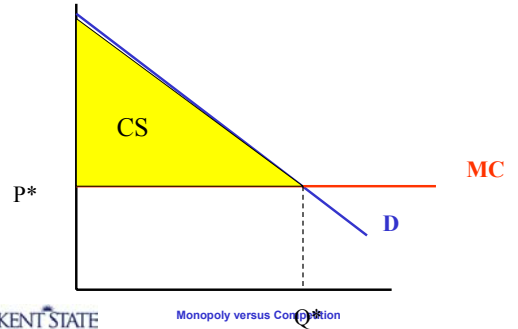
$$MRS > MRT$$

A Graphical Presentation



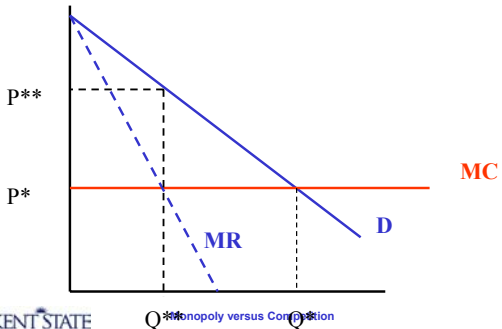
Monopoly versus Competition

A Graphical Presentation



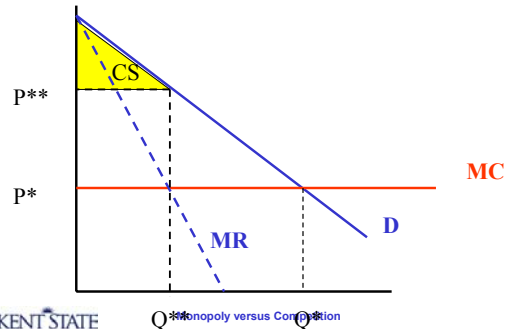
Monopoly versus Competition

A Graphical Presentation



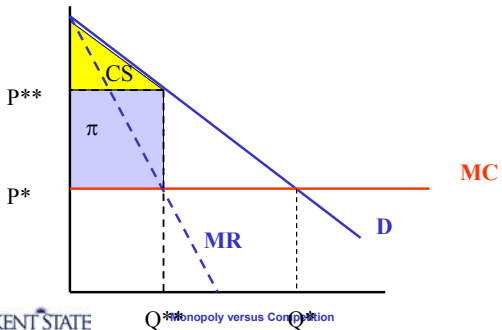
Monopoly versus Competition

A Graphical Presentation



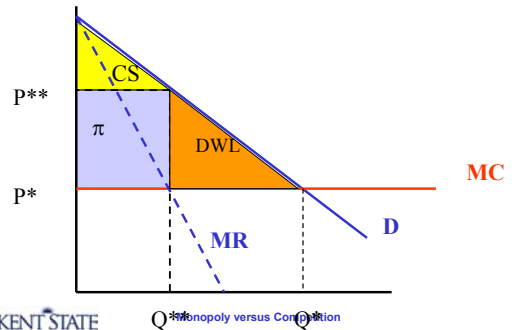
Monopoly versus Competition

A Graphical Presentation



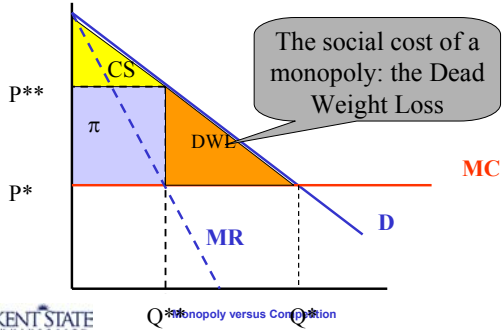
Monopoly versus Competition

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Monopoly versus Competition

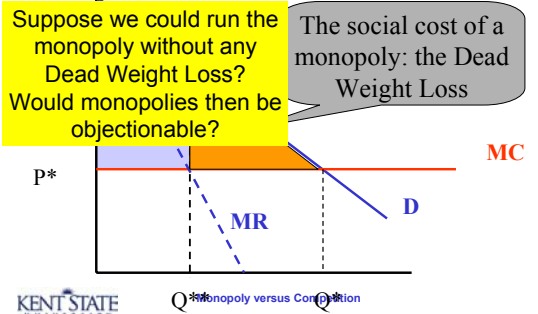
A Graphical Presentation



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End

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