Monopoly versus Competition

Comparison to Competitive Equilibrium

• A consumer sets \( MRS = P \)

• A competitive firm sets \( MC = P \)

Of course, \( MC = MRT \)

\[ MRS = P = MC \]
**Comparison to Competitive Equilibrium**

\[ MC = MRT \]
\[ MRS = P = MC = MRT \]

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**

\[ MRS = P \]
\[ MR = MC \]

\[ P > MR \implies P > MC \]

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

\[ MC = MRT \]
\[ MRS > MRT \]
The social cost of a monopoly: the Dead Weight Loss

Suppose we could run the monopoly without any Dead Weight Loss? Would monopolies then be objectionable?

End