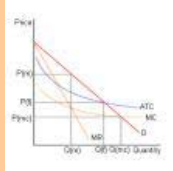


What Causes Monopolies?



Lectures in Microeconomics-Charles W. Upton

What causes Monopolies?

- Natural Monopolies

What Causes Monopolies?

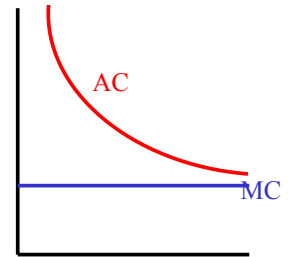
What causes Monopolies?

- Natural Monopolies
- Government

What Causes Monopolies?

Natural Monopolies

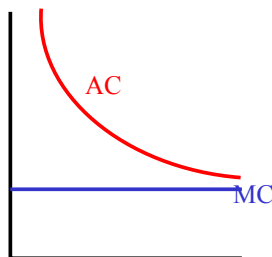
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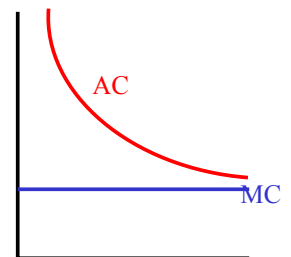
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What Causes Monopolies?

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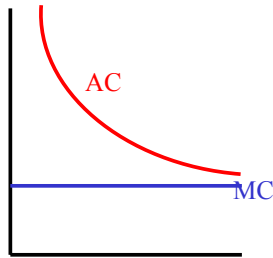
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What Causes Monopolies?

Natural Monopolies

- The cost function is
 $C = 100 + 2q$
- The cheapest way to serve the market is with one firm
- In fact, only one firm will survive
- It will be a monopoly



Natural Monopolies

The American Model

Natural Monopolies

The American Model

- Establish a legal monopoly; regulate it

Natural Monopolies

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- Establish a legal monopoly; regulate it
 - Local phone service
 - Electric utility
 - Gas Company

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The European Model

Natural Monopolies

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- Examples include
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The European Model

- Government ownership and control

Natural Monopolies

- Which system works best?

Natural Monopolies

- Which system works best?
- Problems with either approach.
 - Regulated monopolies are always trying to cheat on the regulation
 - State-owned businesses have a reputation for inefficiency

Natural Monopolies

- Which system works best?
- Problems with either approach.
 - Regulated monopolies are always trying to cheat on the regulation
 - State-owned businesses have a reputation for inefficiency
- Some private ownership seems best.

Contestible Monopolies

- Suppose the cheapest way to provide airplane service from Cleveland to Chicago is to fly one 747 a day in each direction.

Contestible Monopolies

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Contestible Monopolies

- Suppose the cheapest way to provide airplane service from Cleveland to Chicago is to fly one 747 a day in each direction.
 - This is a natural monopoly
 - It is contestible; anyone who wants to control the traffic can simply start flying the 747. If you lose the contest, simply take the 747 off the route. Nothing is lost.

Contestible Monopolies

- Suppose the cheapest way to provide airplane service from Cleveland to Chicago is to fly one 747 a day in each direction.
- Suppose someone wants to compete for electric power distribution in a city.

Contestible Monopolies

- Suppose the cheapest way to provide airplane service from Cleveland to Chicago is to fly one 747 a day in each direction..
- Suppose someone wants to compete for electric power distribution in a city.
 - An extensive set of power lines must be built
 - If the competition is lost, the value of the power lines is lost.

Contestible Monopolies

- Suppose the cheapest way to provide airplane service from Cleveland to Chicago is to fly one 747 a day in each direction.
- Suppose someone wants to compete for electric power distribution in a city.
- A firm must not charge monopoly price in a contestible monopoly or it will be contested away.

Can the Government Create Monopolies?

- Patents and Copyrights

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- Patents and Copyrights
 - Gives inventors and authors an incentive to produce

Can the Government Create Monopolies?

- Patents and Copyrights
 - Gives inventors and authors an incentive to produce
 - Clearly important to United States

Can the Government Create Monopolies?

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- Trademarks

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- Trademarks
 - A way of giving firms an incentive to produce high quality products
 - Why Bayer lost its aspirin trademark
 - Why Intel called the chip the Pentium and not the 586

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- Certificates of Necessity and Convenience

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Can the Government Create Monopolies?

- Certificates of Necessity and Convenience
- Other Government Regulations

Can the Government Create Monopolies?

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Can the Government Create Monopolies?

- Certificates of Necessity and Convenience
- Other Government Regulations
 - Glass Steagall Act
 - Zoning
 - Quotas

Can the Government Create Monopolies?

- Why are there so many lawyers and lobbyists in Washington?

Can the Government Create Monopolies?

- Why are there so many lawyers and lobbyists in Washington?
- Remember, that some monopolies the government creates serve a useful purpose.

Can the Government Create Monopolies?

- Why are there so many lawyers and lobbyists in Washington?
- Remember, that some monopolies the government creates serve a useful purpose.
- But it does create monopolies

Can the Government Destroy Monopolies

- Sherman Act makes monopolies illegal

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Can the Government Destroy Monopolies

- Sherman Act makes monopolies illegal
- The courts apply the “rule of reason”
- Monopolies created through competition or innovation are allowed
 - Widgets are selling for \$10
 - I discover a way to produce widgets for \$5 and establish a monopoly
 - It is beneficial to allow me to have that monopoly

Monopolies with no economies of scale

- Suppose that
 - There are no economies of scale
 - The government does not protect the monopoly

Monopolies with no economies of scale

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Monopolies with no economies of scale

- Suppose that
 - There are no economies of scale
 - The government does not protect the monopoly
- Can it survive?
 - No

End