Perfect Competition, Monopoly, Price Searchers

Sources of Monopoly

There are a number of situations that can create monopoly.

Patent

Patents are government enforced rights to prevent the entry of rivals.

Exclusive or Unique Asset

Sometimes a firm buys, discovers, steals, invents, or otherwise obtains a unique or unusual input.

Locational Advantage

A firm’s spatial location often gives it a competitive advantage and can give rise to monopoly power, the ability to set price.

Regulation

Government creates monopoly privileges besides patent, copyright, and trademark protection.

Collusion

Monopoly power can arise through agreement among competitors.

When average cost is declining, there is a tendency for the firm to expand; costs will be lower.
**Price Searches**

Price taker operates at MC=MR

\[ S = \sum MC_i \text{ of all firms in the industry. Firm can sell all it wants at } P^* \text{ which lead to } Q^* \text{ to be a choice.} \]

1) Market price is perfectly elastic demand curve for by the firm
2) Price of product is = MR from selling an additional unit.
\[ MR = \frac{\Delta TR}{\Delta Q} \]

P=MR, so people are happy to buy more at $10 (price takers)

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Price searches are firms, the price of the product depends on the quantity they produce;

How much should DeBeers produce diamonds or Saudi Arabia oil or Madonna CDs?

Why did the Justice Department sued Microsoft? Why European Union prevented merger between GE and Honeywell?