

Review Notes – Monopoly

- The Market Environment
 - Define
 - Types of Markets
 - For monopoly markets?
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- Short-run profit maximization under monopoly
 - Max profit = $PY - c(Y)$
 - Results in $MR = MC$
 - However, MR does not equal Demand (why not?)
 - $MR = P + Y\Delta P/\Delta Y = P(1+1/\epsilon) = P(1-1/|\epsilon|)$
 - Firm only operates in elastic region of demand – why?
 - Make sure you know the two conditions under which $MR=MC$ does not result in maximizing profits.
 - Why does $MR=MC$ result in profit maximization otherwise?
 - Under what conditions will a firm shut-down in the short-run and in the long-run?
 - What is the competitive firm's short-run supply curve?
 - What is the competitive firm's short-run inverse supply curve?
 - What is profit graphically?
 - Make sure you know others graphically as well (MR, MC, P, ATC, AVC, AFC, TR, TC, TVC, TFC, etc.)
 - What does it look like graphically when firm profits are positive, negative or equal to zero?
 - Taxes and monopolies
 - Who pays for the tax?
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- Long-run in monopoly markets
 - Efficiency
 - What is the deadweight loss of a monopoly graphically?
 - Why is a monopoly inefficient?
 - What are the exceptions to the conclusion that monopolists are inefficient?
 - Economies of Scale (Natural Monopoly)
 - Price Discrimination
 - Perfect Price Discrimination
 - Second Degree Price Discrimination
 - Third Degree Price Discrimination
 - For each how does efficiency increase, profit increase? What happens to consumer surplus?
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- Monopolistic Competition
 - Characteristics?
 - MC looks like monopoly in short-run (how are they different, though?)
 - MC more like competition in the long-run (how are they different, though?)
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