Review Notes – Monopoly

• The Market Environment
  ▪ Define
  ▪ Types of Markets
  ▪ For monopoly markets?

• 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/\varepsilon) = P(1-1/|\varepsilon|)
    • 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?

• 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?
• 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?)