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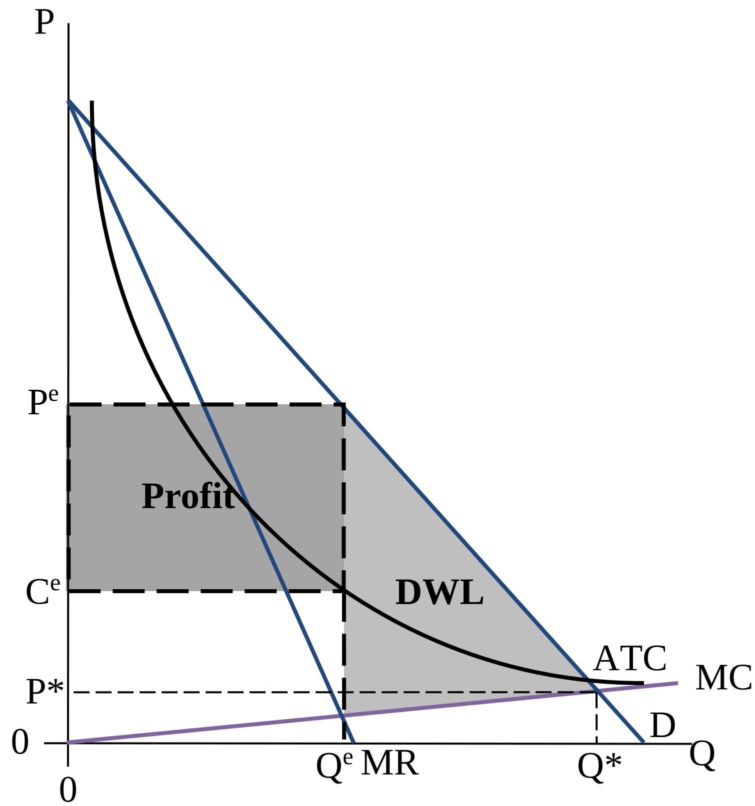
ECON 202—Montgomery College

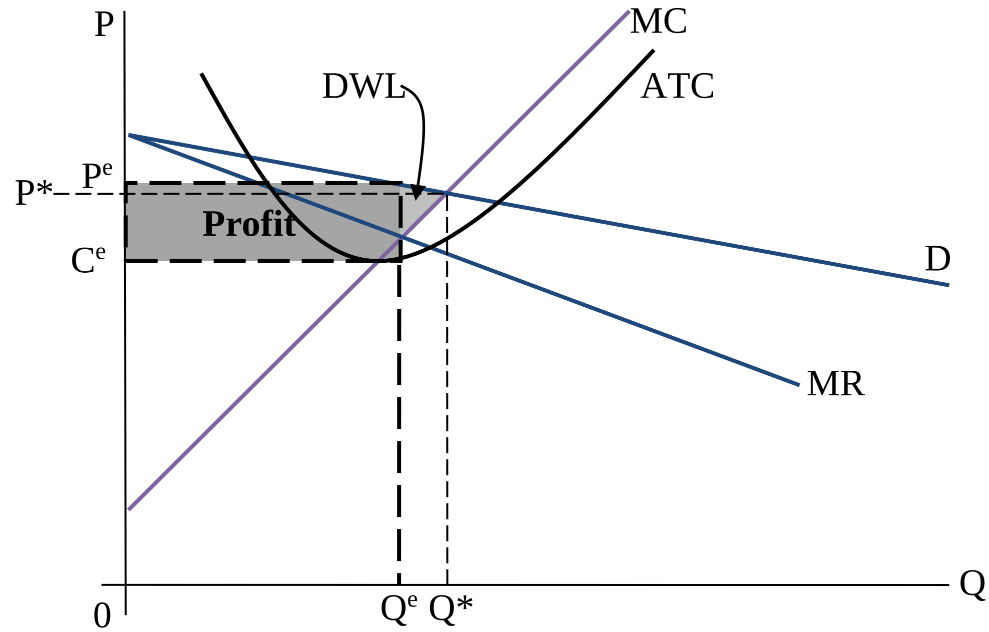
LECTURE 32: MONOPOLY III

I. Natural Monopoly
   a. In a natural monopoly, the firm can supply the whole market under economies of scale. We thus make the ATC downward sloping for the whole demand curve. Since MC has to intersect ATC at its lowest point (which is beyond where the demand curve ends), we don't see MC intersect ATC.

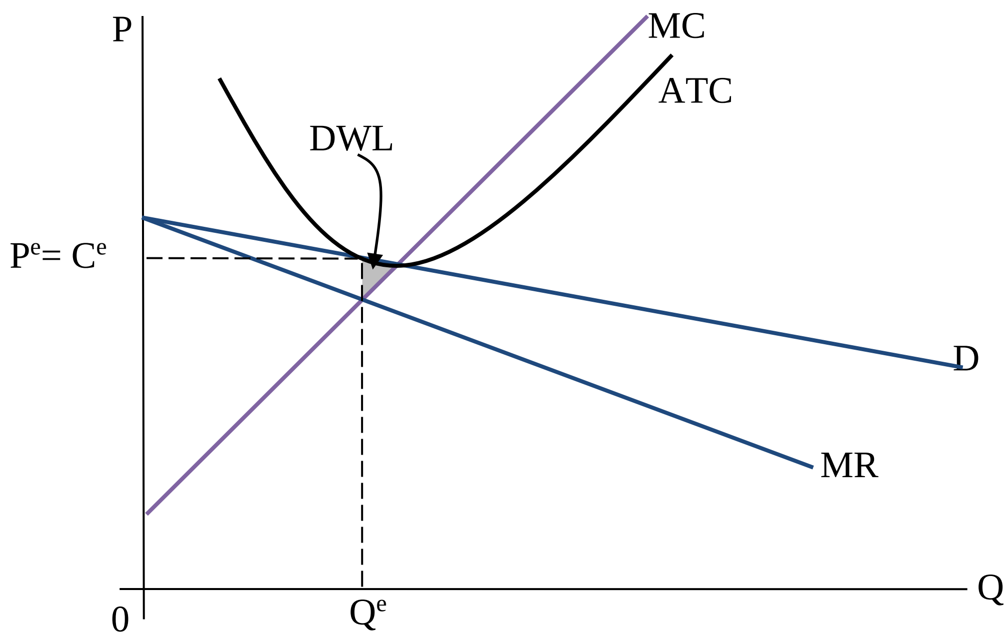


   b. Wow, that's a lot of deadweight loss!

II. Monopolistic Competition
   a. In monopolistic competition, firms get small advantages over another, identified by their brand. These are temporary, as other firms copy them.



i. The curve is now quite elastic, but still downward sloping.
ii. In the long run, competition shifts demand down until it makes no economic profit.



iii. Note that there's still some deadweight loss and that deadweight loss is smaller after entry.