CLASS-11
FORMS OF MARKET
Monopoly

It is a form of the market in which there is a single seller of a product with no close substitutes. Example: Railways in India are a monopoly industry of the Government of India. Since there is only one producer of a product in the market, the distinction between 'firm' and industry disappears.

[Note: An industry is a group of firms producing a particular product.]

Features of Monopoly

The main features of monopoly are as follows:

(1) **One Seller and Large Number of Buyers:** Under monopoly there is a single producer of a commodity. He may be alone or there may be a group of partners or a joint stock company or a state. However, there is a large number of buyers of the product.

(2) **Restrictions on the Entry of New Firms:** Under monopoly ,there are some restrictions on the entry of new firms into the monopoly industry. Generally, there are patent rights or exclusive control over a technique or raw material.

(3) No Close Substitutes: A monopoly firm produces a commodity that has no close substitutes. **Example:** There is no close substitute of railways as a **'bulk carrier'**.

(4) **Full Control Over Price:** Being a single seller of the product, a monopolist has full control over its price. A monopolist thus, is a price maker. He can fix whatever price he wishes to fix for his product.

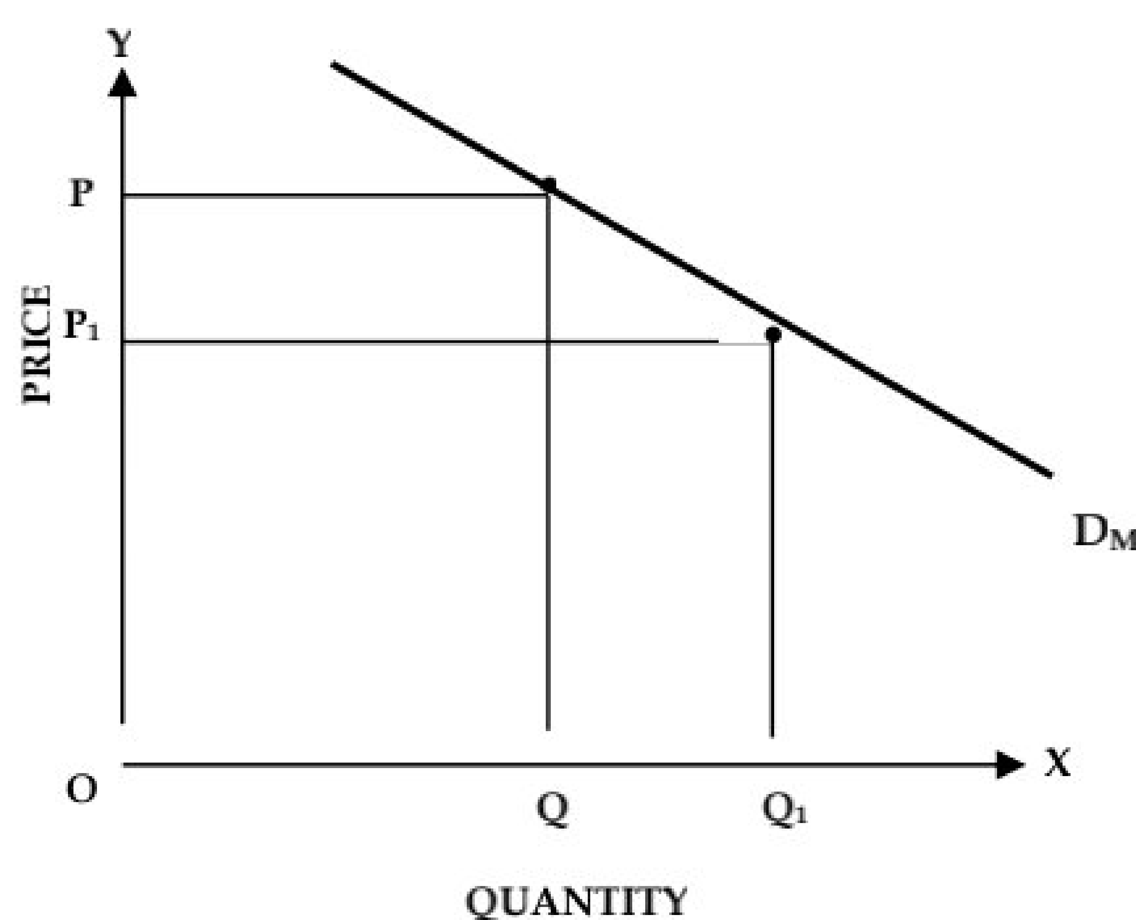
(5) **Price Discrimination:** A monopolist may charge different price from different buyers. It is called price discrimination. *"Price discrimination .refers to the practice by a seller of charging different prices from different buyers for the same good."*

Monopoly is a form of the market in which there is a single seller or producer of a commodity. There are no close substitutes of the monopoly product and there are legal, technical or natural barriers to the entry of new firms in the monopoly market. A monopolist has complete control over price and can also practise price discrimination.

A Vital Observation

Full control over price under monopoly does not mean that the monopolist can sell any amount of the commodity at any price. Once the monopolist fixes price of the commodity, quantity demanded will entirely depend upon the buyers. At the higher price, quantity demanded will be low, and vice versa. Accordingly, there is an inverse relationship between price and quantity sold by the monopoly firm. Thus, demand curve facing a monopoly firm slopes downward, as in the chart below:

D_M: Demand Curve for a Monopoly Firm



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Firms demand curve (DM) under monopoly slopes downward, showing an inverse relationship between price and quantity. The monopolist can fix whatever price he wishes to fix. But higher the price, lower the sale.

D_M is the Demand Curve for the Monopoly Firm.
It shows inverse relationship between price and quantity. Thus, OQ quantity is sold when price is OP. When the price is reduced from OP to OP_1, quantity sold by the monopolist rises from OQ to OQ_1.

How does a Monopoly Market Structure arise?
Monopoly market structure may arise in any of the following ways:

(a) Government Licensing/Government Control: The government may grant license for the production of a particular commodity only **to one producer**. Accordingly, monopoly comes into existence. Also, the government may decide to control the production of certain goods (or services) exclusively through its departmental undertakings, like Railways in India.

(b) Patent Rights: New products may secure **patent rights.** It amounts to monopoly rights regarding the shape, design or other characteristics of the product. Likewise, patent rights may be secured on new technology. It prohibits the use of patented technology by others. Accordingly, **monopoly** market structure emerges.

(c) Cartels: It refers to collective decision making by a group of firms with a view to avoiding competition and securing monopoly control of the market. Competing firms may reach a broad agreement on the pricing and output policy so that competition is avoided and a sort of joint monopoly structure of the market emerges.

(d) Natural Occurrence: Monopoly may emerge as a natural occurrence. The only spring of water in an island, for example, may be under the control of one person who exercises full control over price of water, without any competition.

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