[Frequently Asked Questions]

Monopoly

Subject:	Business Economics
Course:	B. A. (Hons.), 2nd Semester, Undergraduate
Paper No. & Title:	Paper – 201 Microeconomics II
Unit No. & Title:	Unit – 1 Market with Imperfect Competition
Lecture No. & Title:	Lecture – 1 Monopoly

Frequently Asked Questions

Q1. What are different features of a monopoly market form?

A1. i) Single seller

ii) Unique product

iii) No close substitute

iv) Price elasticity of demand of firm is small

v) Price maker firm

vi) Restrictions to entry

Q2. What is price discrimination?

A2. Price discrimination occurs when a producer sells a specific commodity or service too different buyers at two or more different prices, for reasons not associated with difference in cost of production.

Q3. How does a discriminating monopolist maximise profits?

A3. Following are the conditions to maximise profit for a discriminating monopolist:

i) MC=AMR ii) If there are two supermarkets A and B then MC=MRa=MRb

Q4. Write some examples of price discriminating monopoly?

A4. i) Doctors and Lawyers charging different fees to different individuals , based on their income, ii)Railways and Bus fairs differ for a student and others, iii)prices of fruits and vegetables differ as per the locality, etc.

Q5. What are different sources of monopoly power?

A5. The possible sources of monopoly power are:

i) Immobility of factors of production., ii) ignorance of possible competetors,
iii) A deliberate policy of excluding competitors, iv) Indivisibilities

Q6. What is the relationship between MR and AR curves of a monopolist?

A6. The relationship between AR and MR curves of a monopolist are as follows:

i) AR and MR curves are negatively slopped
ii) MR curve lies half way between the AR curve and the Y-axis
iii) AR cannot be zero, but MR can be zero or even negative.

Q7. What are twin conditions for short run equilibrium?

A7. Following are the conditions for short run equilibrium of a monopolist:

i) MC=MR
ii) MC cuts MR curve from below.DE

Q8. What is social cost of a monopolist?

A8. In economics, a deadweight loss is a loss of economic efficiency that can occur when equilibrium for a good or service is not achieved or is not achievable. Causes of deadweight loss can include monopoly pricing, externalities, taxes or subsidies, and binding price ceilings or floors. The term deadweight loss may also be referred to as the "excess burden" of monopoly or taxation.

Q9. What do you mean by two-part tariff?

A9. A **two-part tariff** is a price discrimination technique in which the price of a product or service is composed of two parts - a lump-sum fee as well as a per-unit charge. Its example is credit card with charge on annual fee plus transaction fee.

Q10. What is bundling?

A10. The practice of joining related products together for the purpose of selling them as a single unit. This is generally carried out when the seller thinks that the characteristics of two or more products and services are such that these products might appeal to many consumers more as a package than as individual offerings e.g. tooth brush free with tooth paste.