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Commentary

Sources of Monopoly Power

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DESCRIPTION

Monopolies obtain their market power from barriers to entry-circumstances that stop or greatly impede a potential competitor's capacity to engage in a market. There are three major kinds of barriers to entry: economic, legal, and deliberate.

Economic barriers

Economic barriers enclose economies of scale, capital needs, cost leads, and technological supremacy. Reducing unit prices for larger volumes of production. Reducing prices coupled with large initial prices, if for example, the industry is big sufficient to support one company of at least efficient scale then other companies entering the industry will run at a size that is under MES, and so can't make at a moderate price that is competitive with the dominant company. Production procedures that require big investments of capital, perhaps in the form of big research and development costs or substantial sunk prices, limit the number of the companies in an industry: this is a sample of economies of scale. A monopoly sells a good for which there is no close substitute. The absence of alternatives makes the demand for that good relevantly inelastic, enabling monopoly to extract positive profits. A prime source of monopoly power is the control of resources (such as raw substances) that are condemnatory to the manufacture of a final good.

Network externalities

The use of a product by a person can influence the value of that product to other people. This is the network result. There is a direct connection between the proportion of people using a product and the demand for that product. In other words, the more pupil who is using a product, the greater the probability that other individual will begin to use the product. This reflects fads, fashion trends, social networks, etc. It also can play a significant role in the development or acquisition of market power. The most famous present example is the market dominance of the Microsoft office suite and operating system in individual computers.

Legal barriers: Legal rights can give chance to monopolise the market in a good. Intellectual property rights, as well as patents and trademarks, provide a monopolist exclusive control of the manufacture and selling of certain goods. Property rights may give a company exclusive control of the substances obligatory to produce a good. Advertising is most significant to sell the product because of the one user; they have to do it their own.

Manipulation: A company wanting to monopolise a market may capture various kinds of deliberate action to exclude competitors or eliminate competition. Such steps include collusion, lobbying governmental administrators, and force (see anti-competitive practices).

Additionally to barriers to entry and competition, barriers to way out are perhaps a source of market power. Barriers to way out are market conditions that make it tough or costly for a company to end its involvement with a market. High liquidation costs are a primary barrier to exiting. Market way out and shutdown are sometimes unrelated events. The decision of whether to stop or operate is not affected by way out barriers. A company will stop if the price falls below base median variable prices.

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