Chapter 13

Antitrust & Regulation

12/4/00

What is a Monopoly?

A market structure consisting of one firm producing a good that has no close substitutes and firm entry is impossible

What should a Monopoly charge to maximize profit?

Price determined at output level where

\[ MR = MC \]
Divergent views regarding how to deal with Monopolies?

- 1. Regulate
- 2. Nationalize
- 3. Leave alone
- 4. Concentrate
- 5. Split up

What is Regulation?

Although ownership of the regulated firm remains in private hands, pricing and production decisions are monitored by government.
What is a fair market price to impose on a Monopoly?

The price that will enable it to make a Normal Profit

Where does a Monopoly make a Normal Profit?

\[ P = ATC \]
Can less than a Normal Profit be mandated?

Yes! But only if the monopoly is subsidized.

The City Bus Company