

11.61 - MONOPOLIES

Demonstrate an understanding of monopolies and an ability to analyze and create monopoly graphs.

By: Carter Greene

KICKOFF:

- ❖ Go to Google Classroom and complete the assignment “**1/30- KO**”
 - Monopolies and elasticity
- ❖ Pick up handouts on the way in
- ❖ **Roll Call:** Favorite Superhero?



ANNOUNCEMENTS

- ❖ **2/5-** Quiz
- ❖ Homeroom this week
 - 90 minute classes next week and HR week after
- ❖ Begin Unit 5 today

MARKET & FIRM RELATIONSHIPS- KOBE

- ❖ Complete the handout with a partner
 - I know Kobe's card doesn't represent perfect competition
- ❖ Demand shifts in perfect competition and their effect on short and long run cost and production
- ❖ 15 minutes
- ❖ Finished:
 - Help a struggling group (help not give answers)
 - Watch video on perfect competition graphs
 - Read up on monopolies (Module 11.61)

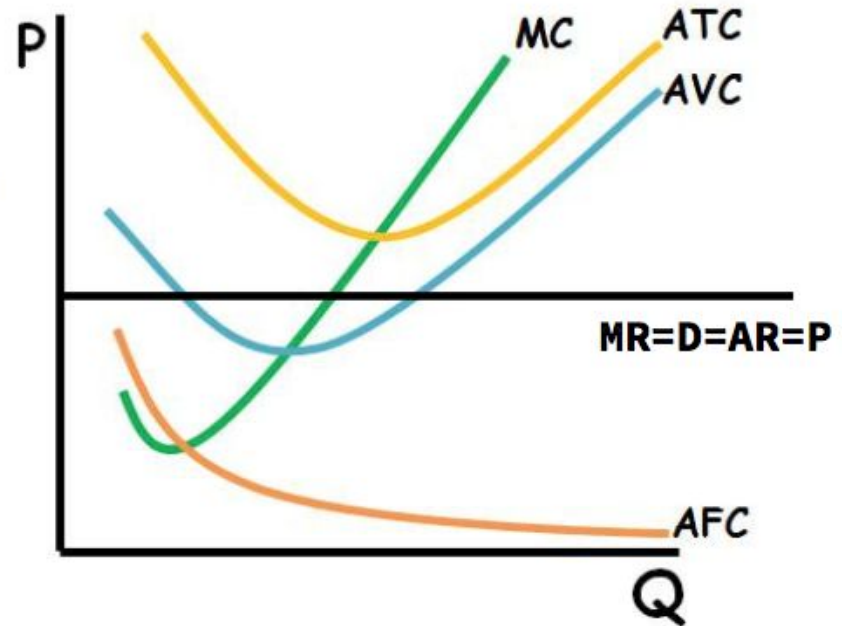
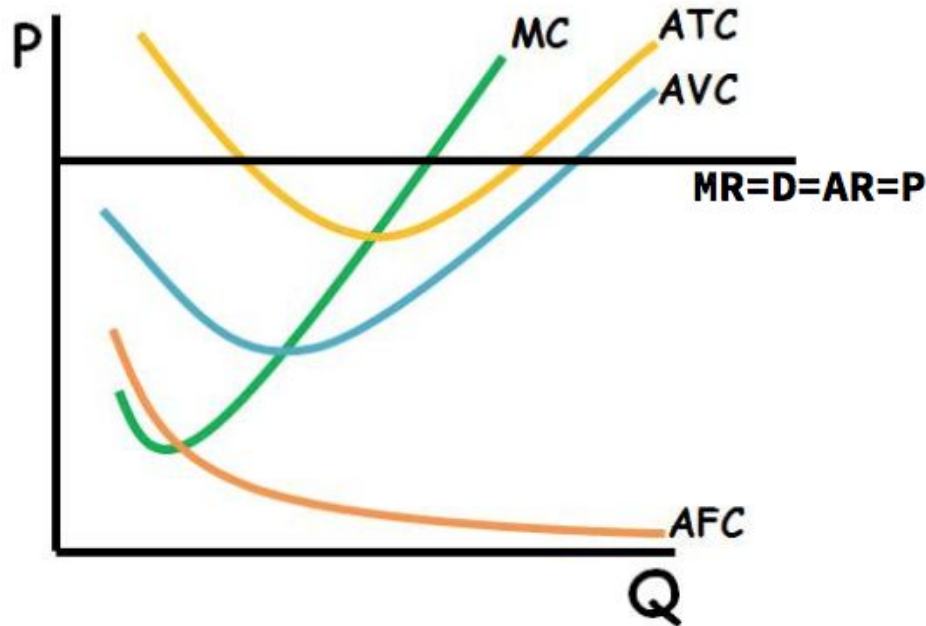
11.60 - PERFECT COMPETITION IN THE LONG-RUN (RE-CAP)

Explain why and how industry behavior differs between the short run and the long run (re-cap).

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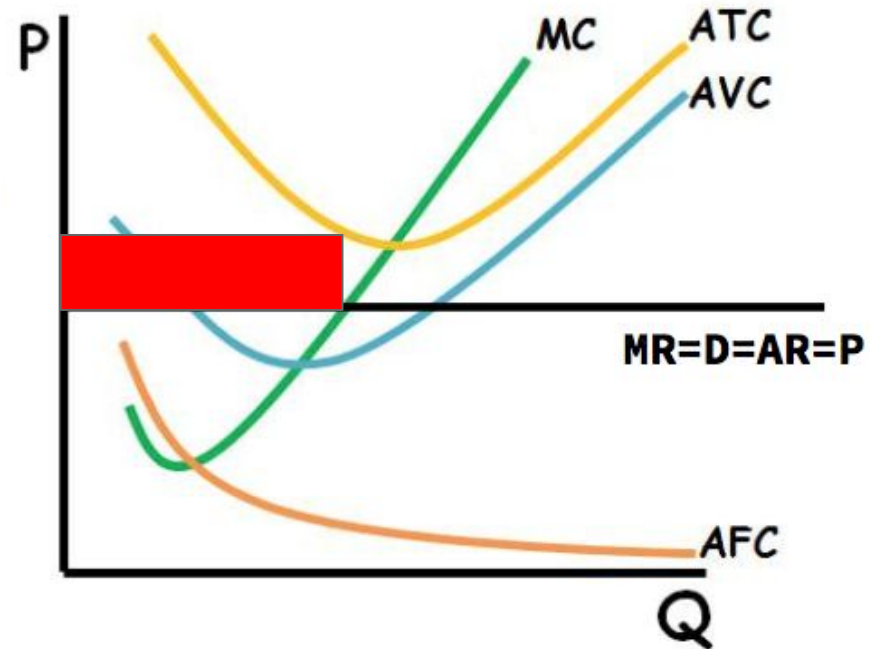
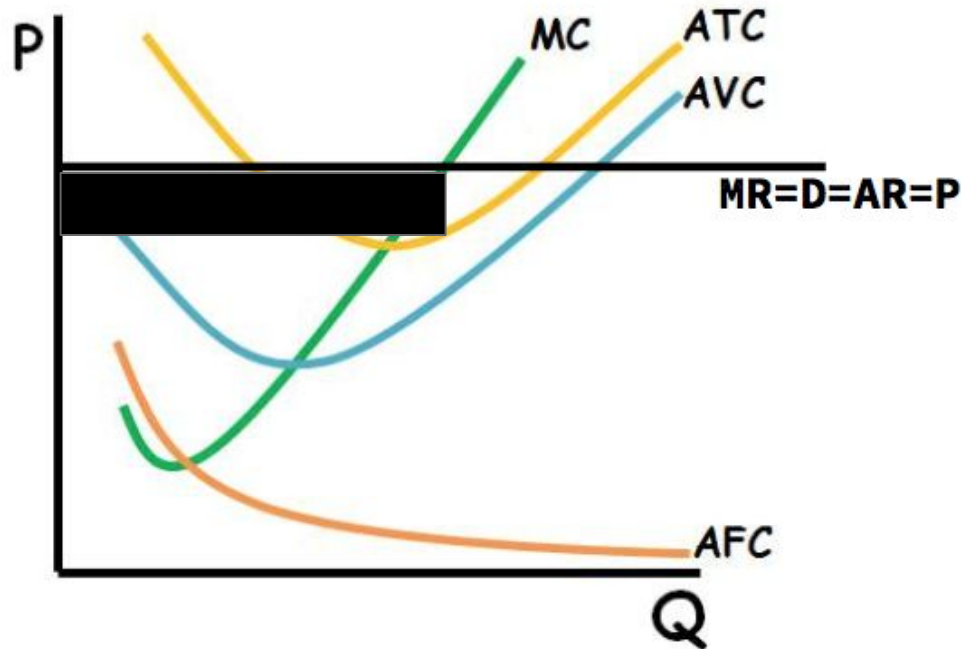
IDENTIFYING PROFIT AND LOSS

- ❖ Draw a graph showing a firm earning economic profits and a graph showing a firm experiencing losses



IDENTIFYING PROFIT AND LOSS

- ❖ Shade on your graph the area representing a profit and the area representing a loss



SHORT-RUN

Increase in Demand

- ❖ Price: increase
- ❖ Quantity each firm produces: increases
- ❖ Quantity produced in market: increases

Decrease in Demand

- ❖ Price: decreases
- ❖ Quantity each firm produces: decreases
- ❖ Quantity produced in the market: decreases

LONG-RUN

Increase in Demand

- ❖ Price: Stays the same
- ❖ Quantity each firm produces: stays the same
- ❖ Quantity produced in the market: increases
- ❖ Number of firms? More
- ❖ Supply curve shift:
Right

❖ Decrease in Demand

- ❖ Price: Stays the same
- ❖ Quantity each firm produces: stays the same
- ❖ Quantity produced in the market: decreases
- ❖ Number of firms: Less
- ❖ Supply curve shift: Left

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MONOPOLIES, WHAT WE ALREADY KNOW

- ❖ Number of firms?
 - One
- ❖ Differentiation?
 - None, unique product
- ❖ Control over price?
 - Total → price makers
- ❖ Barriers to entry?
 - Very high



REASONS FOR HIGH BARRIERS TO ENTRY:

- ❖ Government power
 - Copyrights and patents
- ❖ Resource control
 - Diamond industry
- ❖ Economies of Scale
 - Natural Monopolies
 - Able to produce at lower cost
 - Decreasing ATC
 - Ex: technological superiority

CHARLOTTE
WATER

PERFECT COMPETITION V. MONOPOLIES - WHAT'S THE SAME?

- ❖ Profit Maximizing Quantity
 - $MR = MC$
- ❖ Same shut-down rule applies
 - $P < AVC \rightarrow$ firm will exit the industry
- ❖ Profit = $TR - TC$
- ❖ $TR = (P)(Q)$
- ❖ $TC = Q(ATC)$

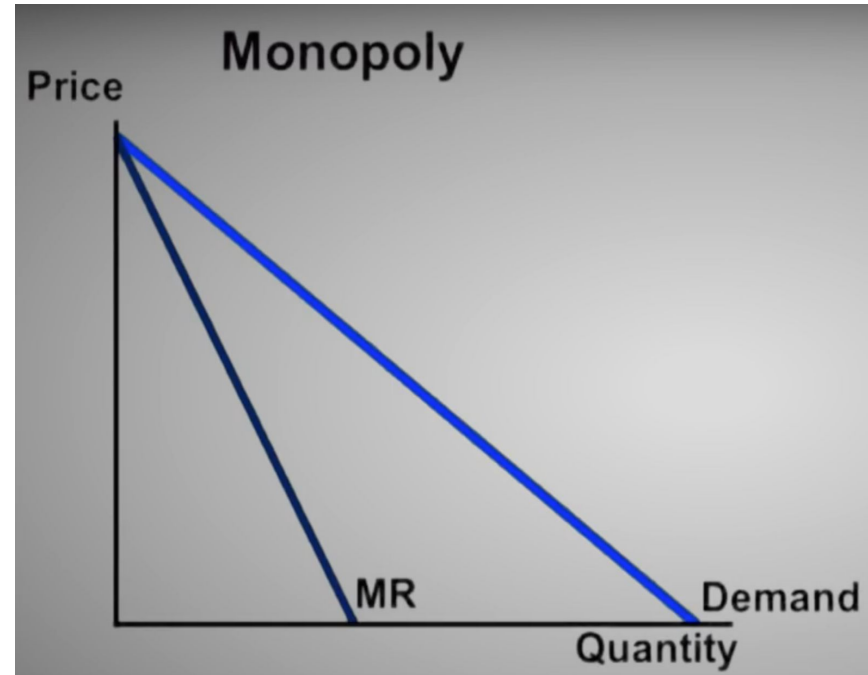
PERFECT COMPETITION V. MONOPOLIES- WHAT'S NEW?

- ❖ No more side-by-side graphs
- ❖ Marginal Revenue \neq Demand, Average Revenue, and Price
 - MR < D, AR, P
- ❖ No longer allocatively or productively efficient
 - Price \neq Marginal Cost
 - $P > MC$
 - Price \neq Min ATC
 - $P > \text{Min ATC}$
- ❖ Deadweight Loss will occur

MR \neq DEMAND, AVERAGE REVENUE, PRICE

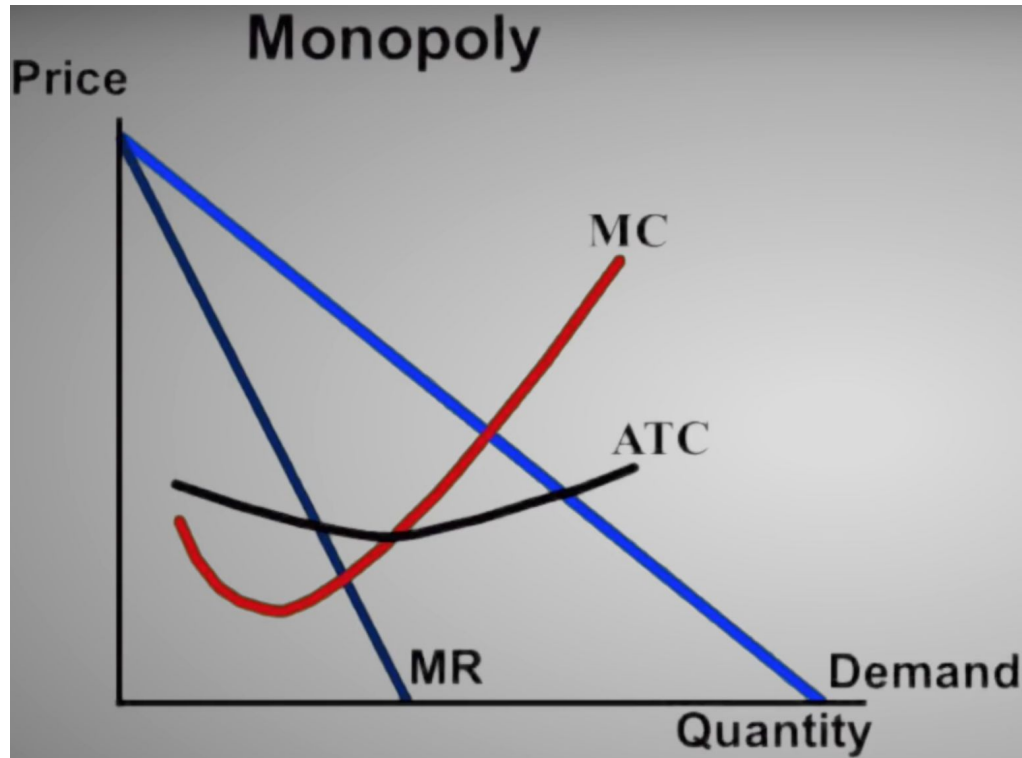
- ❖ If a monopoly wants to sell more, it must lower the price for all units, resulting in MR falling faster than P

Price	Qd	TR	MR
\$6	0	0	-
\$5	1	5	5
\$4	2	8	3
\$3	3	9	1
\$2	4	8	-1
\$1	5	5	-3



NON-PRICE DISCRIMINATING-MONOPOLY GRAPH

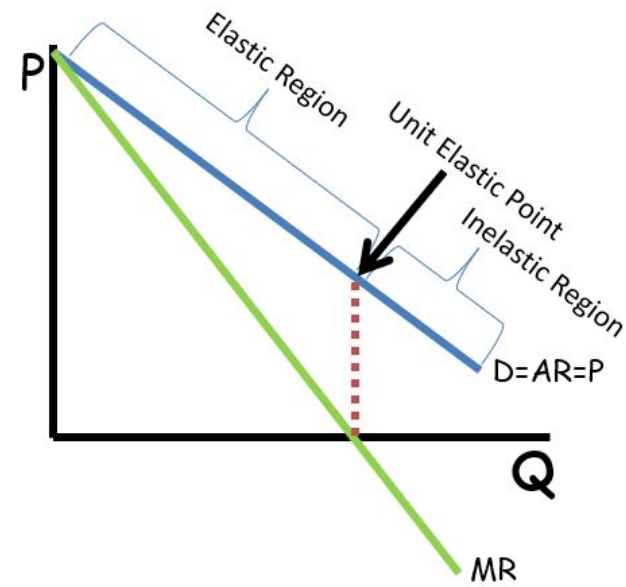
- 1) Identify and label the profit maximizing quantity Q_1 .
- 2) Identify and label the profit maximizing price P_1 .
- 3) Shade in the area representing profit with horizontal lines.



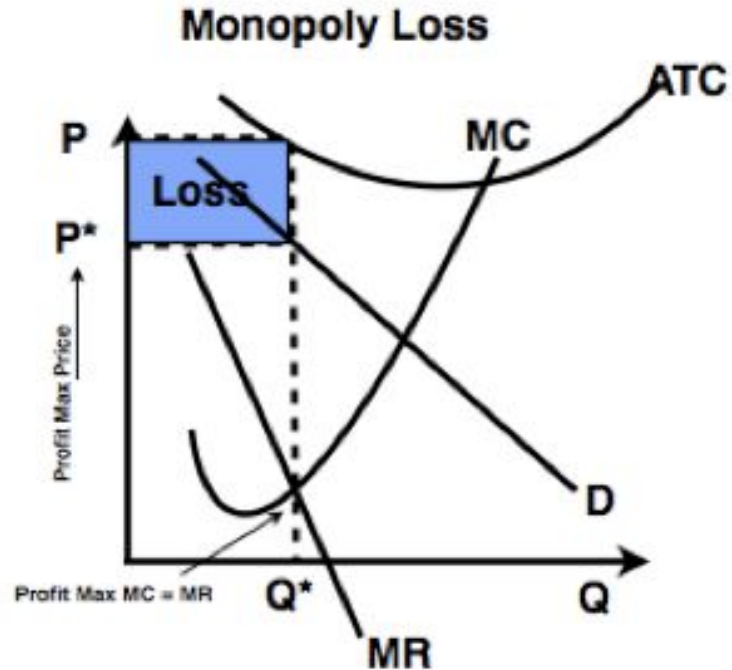
- 4) Shade in the area representing consumer surplus with vertical lines.
- 5) Label the area that represents Deadweight Loss.
- 6) Label the revenue maximizing quantity Q_2 .

ELASTICITY OF MONOPOLY DEMAND CURVE

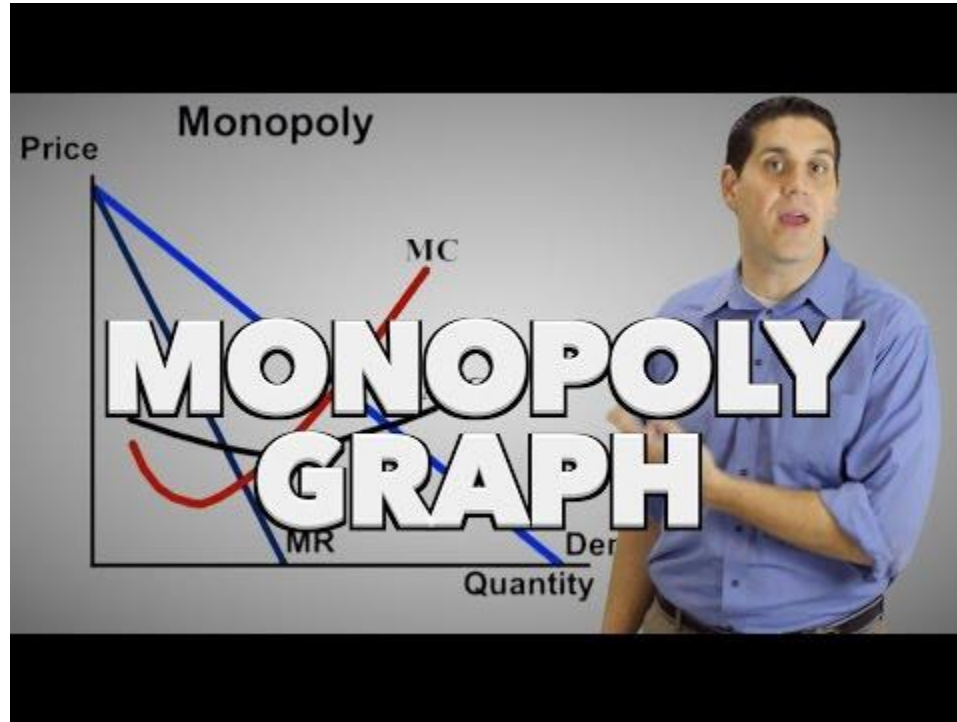
- ❖ Demand curve is elastic where MR is positive
 - Total Revenues Test
 - Decrease in price causes increase in revenue
- ❖ Demand curve is unit elastic where $MR = 0$
- ❖ Demand curve is inelastic where MR is negative
 - Total Revenue Test
 - Decrease in price causes decrease in revenue



WHAT WOULD A MONOPOLY'S GRAPH LOOK LIKE IF IT WERE LOSING MONEY?



ACDC ECONOMICS- NUMBER A SCRAP SHEET OF PAPER 1-10



MONOPOLY GRAPH

PRACTICE - WORK

WITH THE PERSON

NEXT TO YOU

CLOSURE