

11.62 - NATURAL MONOPOLIES, AND PUBLIC POLICY

Evaluate the effects of price discrimination and public policy on monopolies.

By: Carter Greene

KICKOFF:

- ❖ Go to Google Classroom and complete the assignment **“KO- 2/3”**
- ❖ Pick up handout on the way in
- ❖ **Roll Call:** Favorite Holiday

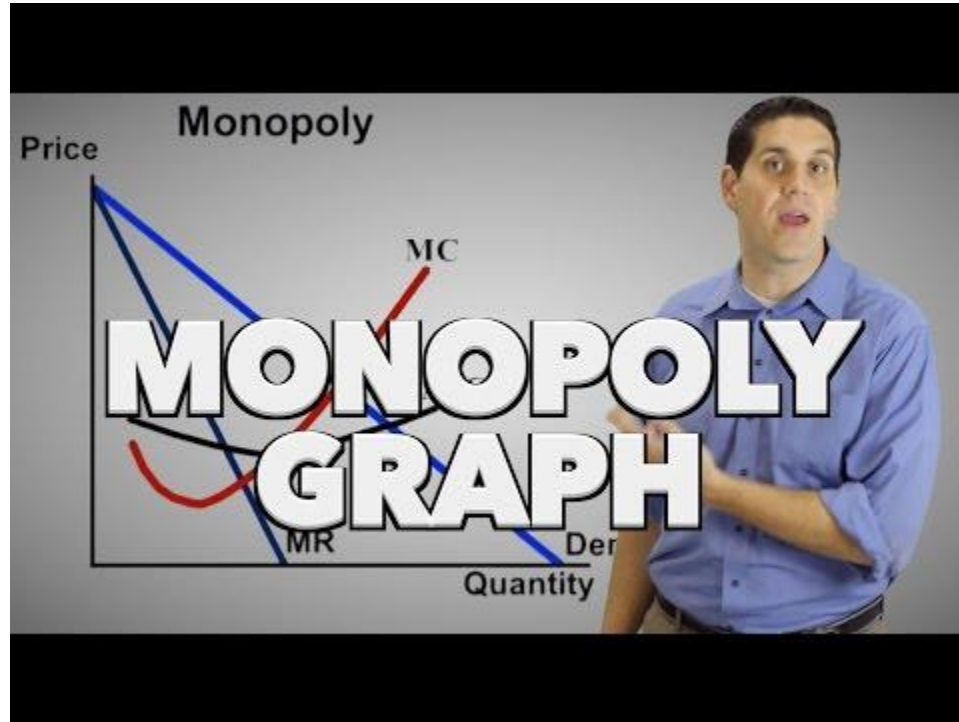


ANNOUNCEMENTS:

- ❖ **2/5- Quiz**
 - Notes on Monopolies (Modules 61-62)
- ❖ 90 minute classes this week
- ❖ Why is today important?
- ❖ Chiefs!!!



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

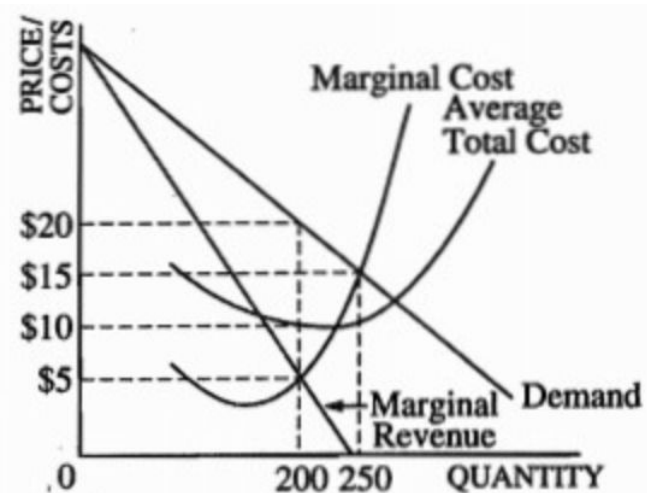


MONOPOLY GRAPH PRACTICE

- ❖ Work with the person next to you
- ❖ You should be able to complete all of the first page and MOST of page 2
- ❖ Show all calculations
- ❖ 10-15 minutes?
 - If you complete the front two pages, see what you can do on the last page, but be sure to use a pencil
 - We'll come back to it after notes

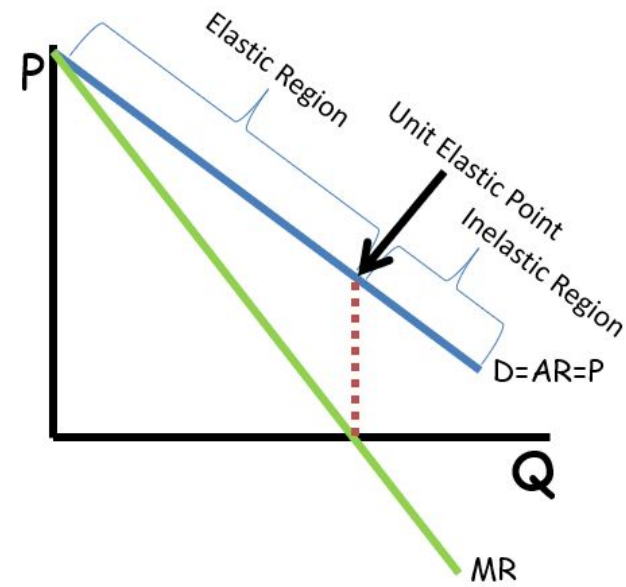
CORRECTION FROM LAST CLASS:

- ❖ Monopolies that are making a profit ARE productively efficient
 - They just aren't operating at $P = \text{MINIMUM ATC}$
 - $P > \text{ATC}$

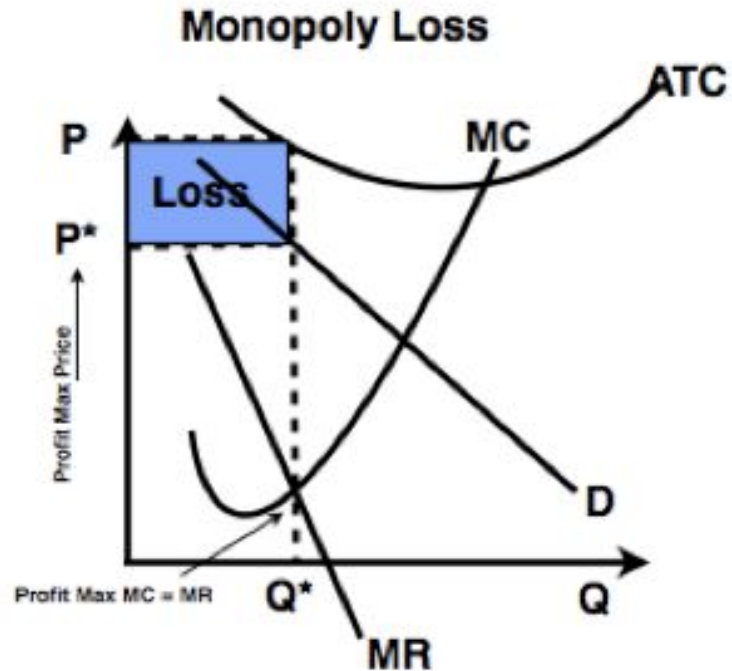


ELASTICITY OF MONOPOLY DEMAND CURVE

- ❖ 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?



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11.62- Evaluate the connection between monopolies, natural monopolies, efficiency and public policy.

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TAKEAWAYS FROM LAST CLASS

- ❖ Still use $MR = MC$
- ❖ Profit, TR, and TC still found same way
- ❖ $MR \neq D, AR, P$
- ❖ Create inefficiencies
 - allocative
 - $P > MC$
 - Produce too few at too high of a price

NATURAL MONOPOLIES

- ❖ An economy created by Economies of Scale
 - ATC is decreasing for all output that would be demanded
- ❖ High fixed cost
- ❖ Examples?
 - Cable/internet, natural gas, water, power/electricity, airlines, plane builders (?)
- ❖ Are they going away?

ARE (NATURAL) MONOPOLIES GOOD OR BAD?

- ❖ Little incentive to innovate
 - Cable/internet
- ❖ Bad customer service
 - Natural gas or cable people coming to your house
- ❖ CREATE INEFFICIENCIES
 - Too few produced at too high of a price
- ❖ So what do we do about this?

HOW TO DEAL WITH MONOPOLIES:

- ❖ Prevent them from occurring
 - FTC, Justice Department and antitrust policy
 - Clayton and Sherman Antitrust acts
 - Not always possible because of economies of scale
- ❖ Public Ownership- government or firm owned by govt.
 - Less incentive to innovate and keep cost down
 - Fall victim to political interest
- ❖ Regulation (price)- limit on price firm can charge
 - Price ceiling or set price
 - Socially Optimal Pricing and Fair-Return Pricing

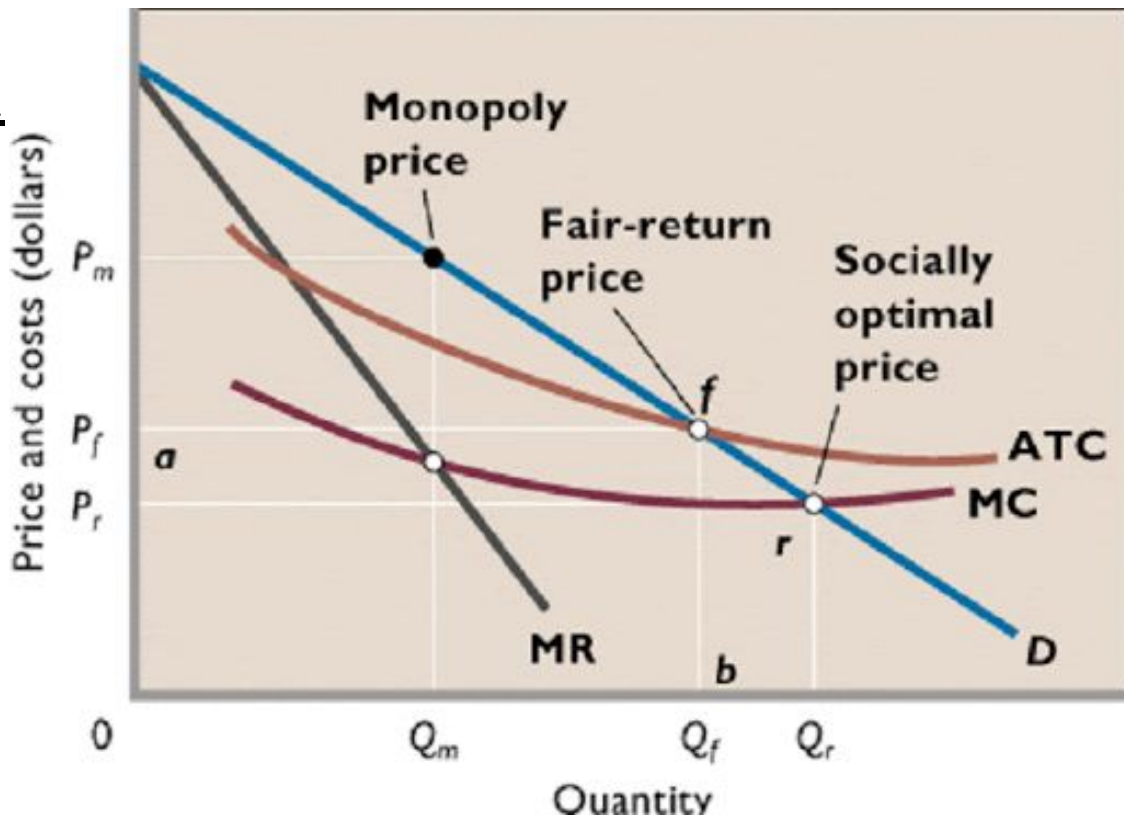
MONOPOLY REGULATION

❖ Socially optimal pricing

➤ Producing where $P = MC$

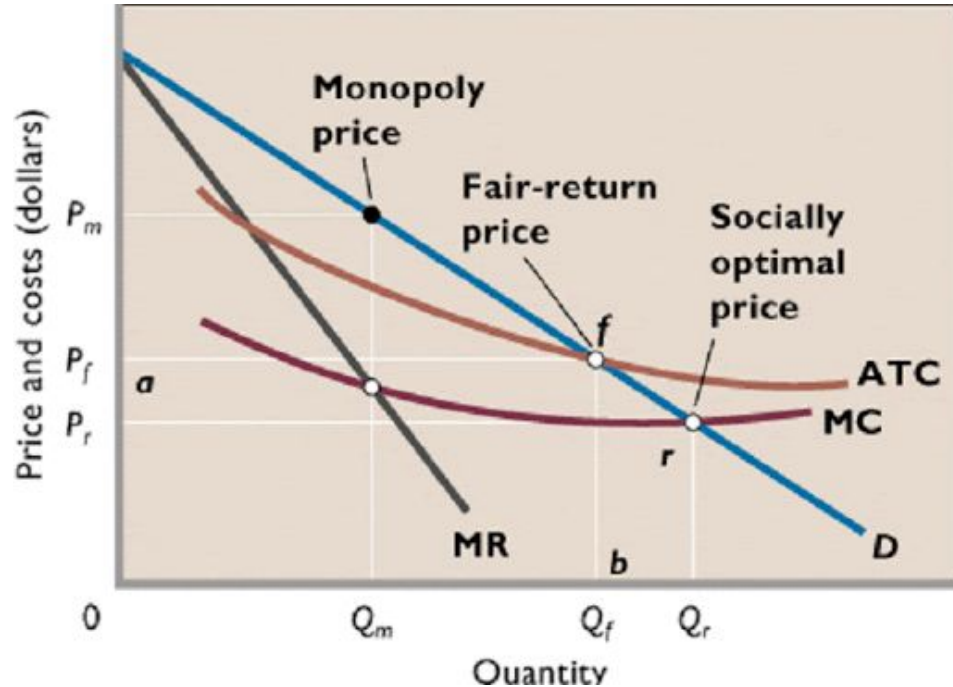
❖ Fair-Return pricing

➤ Producing where $P = ATC$



EFFECTS OF MONOPOLY REGULATION

- ❖ Increase efficiency
 - Decreases P and increases Q
 - Increased CS and TS
- ❖ Could cause firms to lose money



PRACTICE

- ❖ Now see if you can complete the last page with your partner
- ❖ If you finish early, check your answers and then start researching price discrimination

CLOSURE