1. Are monopolies undesirable?

*Answers may include:*

A monopoly is a single seller in a market. In a monopoly situation compared to a free market equilibrium the long run equilibrium is likely to involve:

- A higher price and lower output
- Higher producer surplus, lower consumer surplus and a lower overall community surplus
- Less incentive to innovate because of its market dominance; this can cause further inefficiency

However, the effect of a monopoly will depend on:

- Whether there is a threat of entry in which case a monopolist may have to be innovative and meet customer needs effectively to maintain its market share
- Whether the monopoly is regulated or not; and if so how it is regulated
- The position of the market without a monopoly; by producing less than a competitive market, for example, may actually remedy the effects of overproduction arising from a negative externality
- The long term effects; the abnormal profits of a monopoly may encourage more firms to innovate to gain higher sales
- What is done with the profits; these may be redistributed via dividends and so we might be interested where they end up

2. To what extent do you think managers can prevent entry into their market?

*Answers may include:*

Managers may be keen to prevent entry as it will enable them to earn abnormal profits in the long run. They will to establish barriers to entry. These may include:

- Increase marketing costs and developing greater brand loyalty making it more difficult for potential entrants to gain sales. By establishing a brand managers may retain existing customers and make entry more difficult
- Expanding to gain cost advantages from economies of scale; by growing and driving down unit costs the established businesses may be able to undercut any potential rival
- Colluding with existing firms to gain monopoly power and if necessary jointly acting to undercut any entrant

Whether a manager can achieve these barriers depends in part on the resources they have available. Other barriers may be created by external factors such as laws ensuring there is only one provider in a market.
3. To what extent do you think that price discrimination is desirable?

*Answers may include:*

Price discrimination occurs when different prices are charged for the same product. The price charged depends on the price elasticity of demand. A higher price will be charged in the price inelastic market. By discriminating a business may increase its profits. This may lead to more investment in the long run. The profits made would be greater than in the case of a single price monopolist; this may enable some products to be produced that might not otherwise be produced- the profits in some markets may subsidise the losses that might be made in other markets.

However a business will reduce consumer surplus. In the case of perfect price discrimination the consumer is charged exactly the price he or she is willing and able to pay and so consumer surplus is zero.