

Chapter 9 Project

Monopoly

Purpose

In this chapter, you’ve learned the characteristics of monopolies and about barriers that protect monopoly profits by preventing entry of other firms into monopoly markets. You’ve also learned how monopoly is inefficient compared to perfect competition.

The purposes of this exercise are to determine if markets that you encounter on a regular basis are monopolies and to identify barriers to entry in those

monopoly-based markets to compare monopoly outcomes with those of perfect competition.

Directions

This exercise has two parts. In the first part, you’ll determine whether some familiar goods and services are monopolies and identify their barriers to entry. In the second part, you will contrast the equilibrium price and quantity for a monopoly with that of perfect competition.

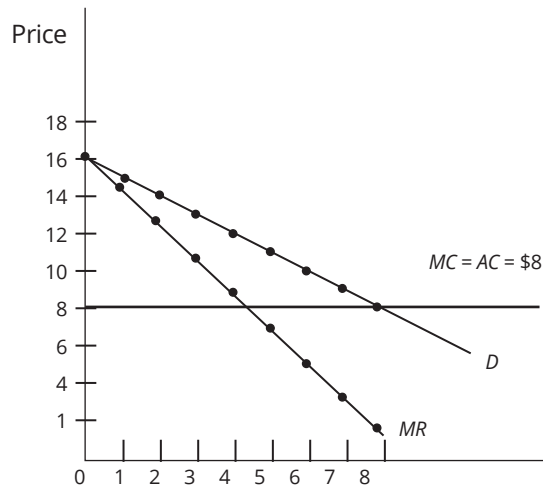
Part 1 - Monopolies and Barriers to Entry

In the following table, indicate whether each good or service is likely produced in a monopoly market and whether or not you think this market is a monopoly. If it is, identify the barrier(s) to entry. Then, list some other goods or services that you frequently purchase and provide the prompted information.

Good or Service	Monopoly?	Barrier(s) to Entry
Electricity		
Campus bookstore		
Required textbook		
Facebook		
Cell phones		
Brand-name drug		

Part 2 - Comparing Monopoly and Perfect Competition

Assume that the following graph represents the demand, marginal revenue, average total cost, and marginal cost for a small business that has been granted a monopoly to provide lunches for visitors to a state park. Additionally, assume that the average and marginal cost of each lunch is \$8.



Answer the following questions:

1. To maximize profit, the monopoly will produce _____ lunches and charge \$ _____ per lunch.
2. How did you determine the monopoly's equilibrium price and quantity?
3. If the firm loses its monopoly and many other firms are allowed to enter the market so that the market becomes perfectly competitive, the output will be _____ lunches, and the price will be \$ _____ per lunch.
4. Compared to perfect competition, the output for a monopoly will be _____ (less, more), and the monopoly price will be _____ (higher, lower) than the price in perfect competition.
5. Explain how you determined the perfectly competitive firm's price and output.
6. Compare monopoly and perfect competition with respect to productive and allocative efficiency.

Checklist

Part 1

- ☐ Fill in the chart with regards to monopolies and barriers to entry.

Part 2

- ☐ Compare monopoly and perfect competition.