A Perfectly Competitive Market

Characteristics of a Monopoly

- A **monopolistic market** has the following three characteristics:
  - It has a single seller.
  - The single seller sells a product that has no close substitutes.
  - The market has extremely high barriers to entry. A **barrier to entry** is anything that prohibits a firm from entering a market.

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How Monopolies Differ from Perfect Competitors

- A monopoly firm is a **price searcher**—that is, a seller that can sell some of its output at various prices.
- Over time, a monopoly firm finds the highest price at which it can sell its entire output.
- There are limits to how much a monopolist can charge for a product. These limits are determined by the amount of demand for the product.
- No monopoly seller is guaranteed profits. A firm earns profits only if the price is greater than the total average cost.

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Barriers to Entry

- Legal barriers to entry in a monopoly market include public franchises, patents, and copyrights.
- A **public franchise** is a right that the government has granted to a firm. It permits the firm to provide a particular good or service, and it prevents all other firms from providing the same good or service.
- A **natural monopoly** occurs when a firm has such a low average total cost that it is the only firm that can survive in the market. If one firm can sell a product for less than it costs other firms to produce the same product, competitors will leave the market.

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- Exclusive ownership of a scarce resource by one firm can be a barrier to entry in a particular market.
- The government can create a monopoly by legally protecting a firm from competition.

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Antitrust and Monopoly

- **Antitrust laws** are pieces of legislation that are passed to control monopoly power and preserve and promote competition.
- Examples of antitrust laws are as follows. (See Transparency 8-1.)
  - The Sherman Antitrust Act, passed in 1890, states that either attempting to become a monopolist or trying to restrain trade is illegal.

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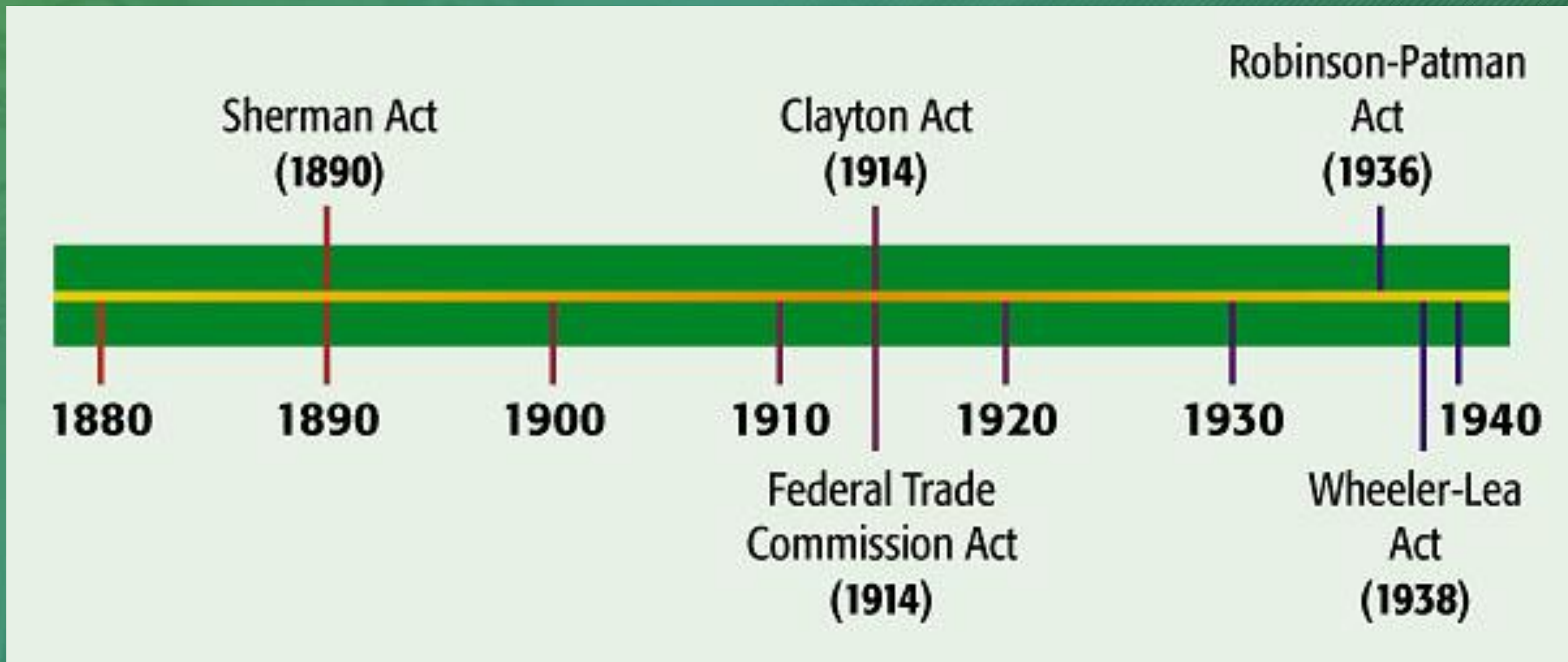
TRANSPARENCY 8-1: Antitrust Acts



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- The Clayton Act, passed in 1914, made certain business practices illegal when their effects “may be to substantially lessen competition or tend to create a monopoly,” through price discrimination or tying contracts.
- The Federal Trade Commission Act of 1914 declared that unfair methods of competition in commerce were illegal. This act prohibited aggressive price-cutting.

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- The Robinson-Patman Act was passed in 1936. This act attempted to decrease the failure rate of small businesses by protecting them from large chain stores. It has been criticized by some economists as protecting small businesses and hurting market competition.
- The Wheeler-Lea Act of 1938 gave the Federal Trade Commission (FTC) the power to deal with false and deceptive acts or practices by businesses.

- Antitrust laws do not usually apply to natural monopolies. To deal with natural monopolies, the government often uses some kind of regulation. For instance, the government might set the selling price or specify a rate of profit.

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Are Antitrust Laws Always Applied Properly?

- Sometimes government enforces antitrust laws in order to promote and protect competition. Sometimes it does not.

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