

ADVANTAGES AND DISADVANTAGES OF MONOPOLY'S

In theory, a monopoly exists when there is only one firm supplying the output of the industry.

Advantages	Discuss	Disadvantages	Discuss
A monopoly has a lower cost curve than a competitive industry.	This is due to economies of scale, which a monopoly is able to exploit more than a competitive firm, as the monopoly is the sole provider of that good, whereas in a competitive industry the firms share the total output.	The monopoly can set prices which they desire, in order to gain a higher profit.	This may be the case, however, firms are not simply able to charge a price they deem fit for the product, since it is constrained by its demand curve. A higher price will result in a fall in demand, and that may subsequently lead to a fall in revenue.
The existence of a monopoly allows the incentive to invest in research and development.	This investment may be able to bring a better product to the consumer. It may also be able to bring a lower cost to the consumer as eventually the monopoly can use it to give a return on the initial capital cost.	The monopoly can exploit consumers.	This would come from high prices charged to the consumer. A monopoly is able to gain abnormal profit in both the short and long run, as long as the firm's average cost is lower than its average revenue.
A monopoly is a barrier to entry.	By doing this, prices will be at a low level, so as to deter potential companies from joining the industry as they know that they would not be able to produce at such a low cost, this benefits the consumer, as there is a lower price available.	A monopoly can produce at a lower cost than a competitive industry.	We assume that firms will aim to produce at the lowest possible cost curve, so to maximise profit, but, firms who are not under pressure due to competition, are likely to not produce at the lowest cost curve, and so will become inefficient and the consumer has to foot the bill.

<p><i>Process of innovation</i></p>	<p>▲ new market is formed due to the innovation of one person and this benefits consumers as there is another product available. Monopolists' best encourage the process of innovation as they can afford to take a long-term research and development programme.</p>	<p><i>Resource cost of creating Monopoly</i></p>	<p>Huge advertising and marketing campaigns will be launched so as to make the most of the monopoly from the firm's viewpoint this will also hopefully lead to consumer loyalty. Government-bestowed monopolies will be greatly sought after, and this involves help from the government in the form of licences, certificates of convenience and things like patents. Not only does it involve these things, but also a great deal of lobbying and hospitality. These will cost the firm a huge amount of money, and this cost will get passed on to the consumer in the form of high prices.</p>
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