Monopoly

Economics

How a single seller prices, and why it creates a welfare loss.

A monopolist produces where marginal revenue equals marginal cost, then charges what demand allows.

MR = MC, price read off the demand curve

Compared to competition	**Higher price, lower output**
Deadweight loss	**Value of trades that never happen**
Natural monopoly High fixed costs.	**One firm is cheapest**

THE COMMON MISTAKE

× **Assuming a monopolist charges any price it likes**

✓ **It is still constrained by demand**

Raising price always reduces quantity. The monopolist picks a point on the demand curve, not a price in isolation.

Natural monopolies are usually regulated rather than broken up: duplicating the network would cost more than the monopoly does.