

4 Market power and monopoly – Part 1

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English

Write it 3 times (English)

market power

monopoly

barriers to entry

deadweight loss

Recall

Not every market has lots of small firms:

- Some products come from just one company, or a few big ones.
- A single seller can charge a higher price than a competitive market.
- Firms with power behave differently from price-takers.

This sheet lines up monopoly. Each idea has a worked example.

New ideas

■ 1 Market power

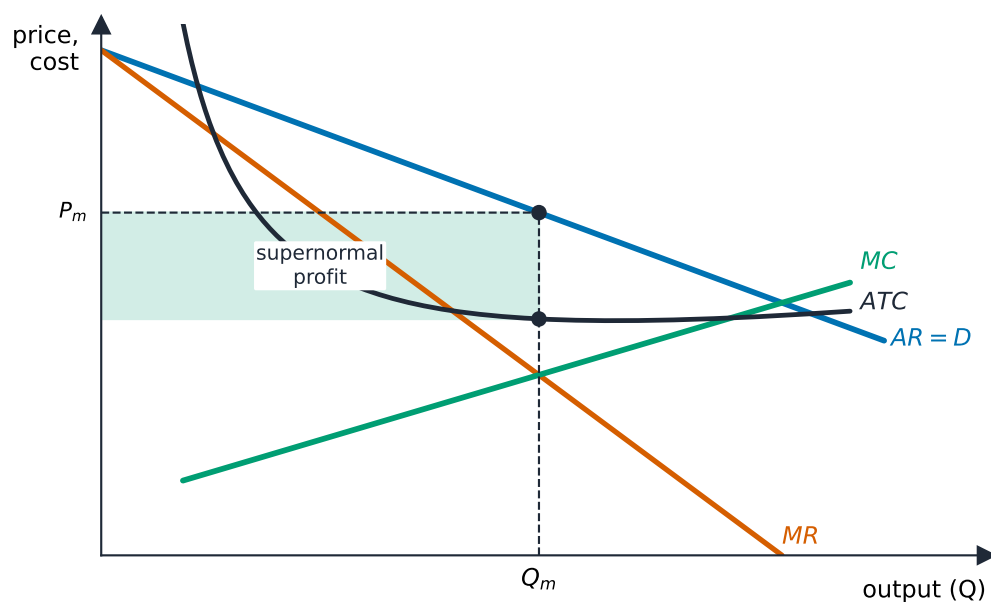
Most real markets are **imperfectly competitive** – firms have some **market power** (the ability to set the price, not just take it).



■ 2 Monopoly

A **monopoly to entry**

is a single seller with no close substitutes, protected by **barriers** (patents, control of a resource, or huge economies of scale).



■ 3 Less output, higher price

Compared with perfect competition, a monopoly produces **less** and charges **more**, and it can keep earning profit because entry is blocked.

■ 4 Deadweight loss

Because it under-produces, a monopoly creates **deadweight loss** – mutually beneficial trades that no longer happen. This is why monopolies are seen as inefficient.

Watch out: a monopoly cannot charge **any** price it likes – it is still limited by the demand curve. Charge too much and buyers walk away; it picks the price that maximizes profit, not the highest possible price.

Practice

Try these in order. The methods are all above.

2.1 State what “market power” means.

[1]

2.2 State what a monopoly is and give one barrier to entry that protects it.

[2]

2.3 Compared with perfect competition, state what a monopoly does to output and price. [2]

2.4 Explain what deadweight loss is. [2]

2.5 Explain why a monopoly still cannot charge an unlimited price. [2]
