4.2 Monopoly

Name: ______________ Class: __________ Date: ____________ **Total: 8 marks**

KEY WORDS monopoly 垄断 • deadweight loss 无谓损失 • natural monopoly 自然垄断

Objective

Build the skills to answer exam questions on **monopoly**.

You must be able to:

- explain why a **monopoly 垄断** is a price maker whose **marginal revenue** lies below its demand
- determine the profit-maximizing quantity and price using $MR = MC$
- identify the **deadweight loss 无谓损失** a monopoly creates
- describe a **natural monopoly 自然垄断**

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Price maker

To sell more, a monopolist must **lower its price** on all units, so **marginal revenue lies below** the demand curve.

■ Profit maximization

Produce where $MR = MC$, then read the **price** off the **demand** curve above that quantity.

■ Inefficiency and natural monopoly

A monopoly produces where $P > MC$, so it is **allocatively inefficient** and creates a **deadweight loss**. A **natural monopoly** has such large fixed costs that one firm is the least-cost producer.

2 Practice

2.1 State why a monopolist's marginal revenue lies below its demand curve. [1]

2.2 State the rule a monopolist uses to choose its quantity. [1]

2.3 State why a monopoly is allocatively inefficient. [1]

3 Exam-style questions

3.1 A monopoly maximizes profit where [1]

A $P = MC$
B $MR = MC$
C $P = ATC$
D $MR = 0$

3.2 A monopoly is allocatively inefficient because it produces where [1]

A $P = MC$
B $P > MC$
C $P < MC$
D $P = 0$

3.3 A monopolist produces where $MR = MC$ at $Q = 40$, charging $P = \$25$ (from demand), with $ATC = \$18$.

(a) Find the economic profit per unit. [1]

(b) Find the total economic profit. [1]

(c) State why the monopoly creates a deadweight loss. [1]