

4 Market power and monopoly – Part 1

—Answers

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Work through these after you have tried the questions yourself.

2.1 the ability of a firm to set its own price rather than just accept the market price.

2.2 a single seller of a product with no close substitutes; a barrier to entry could be a patent, control of a key resource, or large economies of scale.

2.3 it produces less and charges more.

2.4 the loss of mutually beneficial trades that do not happen because the monopoly under-produces.

2.5 it is limited by the demand curve –if it raises the price too far, buyers reduce how much they buy, so it chooses the profit-maximizing price instead.