4 Market power and monopoly – Part 1 — Answers

Answers

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.