

Fill in the blanks to summarize lecture content.

A pure monopoly exists when there is a single seller of a product or service for which there are (1) _____ (close, no close) substitutes. The monopolist controls the market price by restricting output and preventing entry into the industry. Barriers to entry include government franchises and licenses, patents and copyrights, (2) _____ (control of an important resource, government influence), and economies of scale made possible by large size. Some monopolies that exist because of economies of scale are regulated by government so that the economies associated with large-scale production can be passed on to consumers in the form of lower prices than would be possible if the industry were made up of many small firms operating inefficiently small plants. These monopolies are called (3) _____ (natural, pure) monopolies.

The monopolist faces (4) _____ (a horizontal, the market) demand curve because it is the only seller in the market.

As compared to perfect competition, the monopolist charges a (5) _____ (higher, lower) price by (6) _____ (expanding output above, restricting output below) the level that would prevail in a competitive market. Because of the presence of barriers to entry, the monopolist (7) _____ (cannot, can) earn economic profits in the long run. With perfect competition, economic profits are competed away in the long run due to entry into the competitive industry.

Price discrimination is feasible if the firm can control the price, the good produced (8) _____ (is, is not) resalable, and customers can be differentiated according to their willingness and ability to pay.

Perfect competition and pure monopoly represent extreme market structures. Virtually all markets fall somewhere in between. Monopolistic competition and oligopoly are two such imperfectly competitive markets. Monopolistic competition is characterized by (a) (9) _____ (few firms, a large number of firms) with small market shares, (b) the production of goods that (10) _____ (are not, are) perfect substitutes, (c) (11) _____ (concern, lack of concern) regarding rivals' reactions to price and production policy, (d) relative freedom of entry and exit, and (e) (12) _____ (no, significant) opportunity or incentive to collude to limit competition.

The consumer benefits from the information content in advertisements and the

variety of products that are produced as firms try to differentiate their products. But prices (13) _____ (may be higher, are always lower) as a result of the product promotion and differentiation.

(14) _____ (Monopolistic competition, Oligopoly) is a market structure with (15) _____ (a few, many) dominant firms having large market shares and producing either standardized or differentiated goods.

Definitions

1. _____ the ability of a firm to influence the price its product by making more or less of it available to buyers.
2. _____ a constraint that prevents additional sellers from entering a monopoly firm's market.
3. _____ a firm that emerges as a single seller in the market because of cost or technological advantages contributing to low average costs of production.
4. _____ occurs when there is a single seller of a product that has no close substitutes.
5. _____ the practice of selling a certain product of given quality and cost per unit at different prices to different buyers.
6. _____ exists when more than one seller competes for sales with other sellers of competitive products, each of whom has some control over price.
7. _____ exists when many sellers compete to sell a differentiated product in a market in which entry of new sellers is possible.
8. _____ one dominant firm in an industry that sets its price to maximize its own profits, after which other firms follow its lead by setting exactly the same price/