**Monopolies**

**From the first e-Activity, imagine this company acting as a monopoly was to have a new competitor arrive in the marketplace. Assess how the monopoly would likely change its pricing strategy to compensate for the new competition.**

Looking at the concept of monopoly accepted by most economists today is known as the economic concept of monopoly. This concept says a monopoly exists when there is only one supplier of a good, with no close substitutes, in a given geographic region (see Arnold, 2001, p. 528 for a typical exposition of this concept). The concept that provides a sound understanding of monopoly is known as the political concept of monopoly. This concept says that monopolies arise from the government’s initiation of physical force to reserve a market or a portion of a market to one or more sellers. My discussion of the political and economic concepts of monopoly is based on the discussion of these concepts in the book Capitalism: A Treatise on Economics (Reisman, 1996, pp. 376-377 and 389-392).

Examples of Monopolies Company:

* Local telephone service
* Water service
* Cable television
* The U.S. Postal Service

It’s all about pricing and domination of customers or consumer because they have no alternative even when they know that the price are high. The economic concept of monopoly focuses on the number and size of firms in an industry. It says the smaller the number of firms in an industry, and the larger those firms are, the more monopoly power that exists in that industry. It says monopoly power can arise naturally out of the market simply by firms becoming the only firm in an industry. Based on this concept, the greater the market share a firm has the greater its monopoly power. The political concept focuses on the restriction of competition by the government and says monopoly power can be held by many small producers against just one or a few large producers, or can be held by one large producer against other, smaller producers. In this case the customer have no choice than to buy from the only one seller.

For instance, in 1983, the Ninth Circuit rejected the notion, espoused by Areeda and Turner, that "prices above average total cost 'should be conclusively presumed legal. The court reasoned that "we should hesitate to create a 'free zone' in which monopolists can exploit their power without fear of scrutiny by the law" and that a "rule based exclusively on cost forecloses consideration of other important factors, such as intent, market power, market structure, and long-run behavior in evaluating the predatory impact of a pricing decision." Transamerica Computer Co. v. IBM, 698 F.2d 1377, 1386 (9th Cir. 1983). The court accordingly held that "if the challenged prices exceed average total cost, the plaintiff must prove by clear and convincing evidence i.e., that it is highly probably true that the defendant's pricing policy was predatory."

**From the first e-Activity, speculate how the monopolist could be more efficient in the long-run considering new competition has entered the marketplace.**

New competition is only the law that can influence the price of a monopolized market. As one can see, monopolies are not created by the free market. They are created only by government interference into the free market; they are created when the government gives some firm(s) special privileges over others through the initiation of physical force. A free market economy is intensely competitive and is typically more so the larger the firms in an industry are and the fewer the number of firms that exist in an industry. However, a firm accused of pursuing a predatory-pricing strategy is, in essence, accused of charging prices that are too low. Therein lays a difficult conundrum in antitrust law (Lehman, 2005). Price cutting is a core competitive activity. Consumers prefer lower prices to higher prices, and they benefit when firms aggressively compete to price as low as possible. Price competition enables consumers to secure desired products and services for less. Mean if the alternative come people or consumer have alternative if the price from A is higher, they can go to B. because B know that the buy can get the same goods and services from the same cheap rate from A or C they have find and equilibrium of price.

Reference

Arnold, R.A. (2001) Economics 5th ed., Cincinnati, OH: South-Western College Publishing.

Reisman, G. (1996) Capitalism: A Treatise on Economics, Ottawa, IL: Jameson Books.

Transamerica Computer Co. v. IBM, 698 F.2d 1377, 1386 (9th Cir. 1983). Average total cost is total fixed and total variable costs, divided by quantity of output. Id. at 1384.

Lehman, A. (2005). Eliminating the Below-Cost Pricing Requirement from Predatory Pricing Claims, 27 Cardozo L. Rev. 343, 385.