

Monopolies and Their Role on the Market

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Monopolies and Their Role in the Market

A monopoly stands for a market with a single seller and an indefinite number of buyers. A pure monopoly is a market that is controlled by a single seller with goods or services that do not have any substantial substitutes. The power of a monopoly stems from the possibility to eliminate potential competitors by keeping them out of the market and creating barriers for entry. Since a monopoly does not face any significant competition, it essentially controls pricing and several other aspects of the market it performs in. Monopolies are considered to be harmful to the market due to high prices, the lower incentives they provide, and the fact that they disrupt the adequate competition; however, monopolies can be effective from the perspective of the economies of scale when they result in lower prices for a population.

Companies are capable of exercising monopolistic power even if they are not considered a pure monopoly. To execute such power, companies simply need to have an enormous amount of power in the industry, such as the power that *Google* has in the field of Internet search. A situation like this is an illustration of oligopoly, which is a concept that refers to a small number of firms that dominate entire industries (Greenlaw & Taylor, 2018). It can be argued that the current gadget market is an example of an oligopoly. Oligopolistic companies earn higher profits if they act according to the rules of a monopoly by raising prices and reducing output.

Monopolies occur and exist due to the presence of barriers for new players to enter. The potential barriers for entry that contribute to the formation of a monopoly include control of physical resources, control through the intimidation of potential competitors, and control through the protection of intellectual property. Control of physical resources takes place when a specific company has exclusive access to a particular physical resource. For instance, such a case

occurred when the multinational company DeBeers seized control over diamond mining operations around the world (Greenlaw & Taylor, 2018). The intimidation of potential competitors happens in several distinct ways, including predatory pricing when a company uses sharp price cuts to its advantage to eliminate potential competitors. The high cost of entry can also discourage competitors from coming into the market; which, for instance, explains the limited competition among nuclear plant companies. A barrier through the protection of intellectual rights usually occurs in innovative industries where the companies developing a specific technology receives prevalence over other companies in the industry (Greenlaw & Taylor, 2018). The monopoly that is created in this way can be beneficial because monopolization allows companies to receive the investments necessary to develop new products and improve existing ones, which is essential when it comes to, for example, the process of drug development in the pharmaceutical industry.

Natural monopolies and legal monopolies can as well create substantial barriers for entry. Legal monopolies refer to monopolies that are created by the government to limit or eliminate competition in a particular industry. In the United States, such limitation currently exists in postal services (Greenlaw & Taylor, 2018). Natural monopolies, on the other hand, are mostly a product of the economy of scale when the marginal costs of adding a new customer are low. The term "natural monopoly" usually applies to companies in charge of electrical services and water services for a population (Greenlaw & Taylor, 2018). Unlike other barriers for market entry, natural monopolies are often beneficial to all stakeholders. The competition among electric companies, for instance, might result in the higher prices of their products for a population due to the costs of construction.

The regulation of monopolies occurs through the establishment of antitrust laws that promote competition on the market and act against the methods of intimidation applied by the monopolist. Antitrust laws describe basic monopoly-related practices that have to be outlawed; however, courts usually make a final decision in every particular case. The three most relevant antitrust laws in the United States include The Sherman Act, The Federal Trade Commission Act, and The Clayton Act (Federal Trade Commission, 2019). Legislative acts are supported by the Federal Trade Commission and the Department of Justice, the enforcers of the law.

The Sherman Act outlaws any instance of monopolization or a potential monopolization, with severe punishment of up to 10 years in prison and a 1 million dollar penalty for an individual, and a 100 million dollar penalty for a corporation. The Federal Trade Commission Act acts specifically against unfair methods of competition (Federal Trade Commission, 2019). The Clayton Act specifies the prohibition of some of the additional practices that are not directly prohibited by The Sherman Act. What is more, state antitrust laws are complementary to federal antitrust laws.

The antitrust legislation in the United States is useful when it is enforced by courts. Throughout the last few decades, there have been several notorious antitrust cases that persuaded the monopolists to change their policies to seize the violation of anti-trust legislation. *United States v. Microsoft Corp.* of 2001 was one of the most notorious cases of this kind that stopped the company from engaging its suppliers in anti-competitive deals. During the 1990s, the company persuaded PC manufacturers to install Microsoft's browser Internet Explorer by removing their ability to uninstall the product and several of the company's other products (*United States v. Microsoft Corp.*, 2001). In this way, it managed to remove its competitors

successfully. The D.C. Circuit Court of Appeals judged that the actions of Microsoft prove that the company constitutes a monopoly (*United States v. Microsoft Corp*, 2001). The court ordered to break up the company, but the issue was later settled after the case was brought to the Supreme Court.

By enforcing antitrust laws, the government protects citizens. Monopolies result in several disadvantages for consumers, most of which are directly related to pricing. One of the possible scenarios in which a monopoly negatively affects consumers refers to the increase in prices due to the lack of competition on the market. Another potential outcome of monopolistic pricing is price discrimination, which is a practice of charging various customers differently for the same product. Contemporary technologies create additional opportunities for price discrimination because the companies have additional information about the tastes of customers before distribution (Bergemann, Brooks & Morris, 2015). As technologies evolve, the mechanisms of monopolies controlling the market evolve with them.

To conclude, the role of monopolies in the market is controversial if not harmful. Through the various mechanisms available, monopolies create barriers for the competition in the market up to the point of eliminating the competition. For customers, the major issue created by the monopoly is unpredictable pricing, with prices much higher than in the case of healthy competition. The lack of competition might also result in the decreased quality of the product or in the absence of innovation. For all the disadvantages that monopolies clearly possess, there are limited advantages in some very particular cases, such as when the economy of scale leads to water and electricity companies providing lower prices for the population. A monopoly achieved through intellectual rights might result in fostering innovation. The risk associated with

monopolies calls for extensive government control, and the United States provides the necessary control through legislation and the courts. However, the harmful impact of monopolies is challenging to eliminate, especially when it comes to modern oligopolies using monopolist methods.

References

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