



Centurion
UNIVERSITY

Shaping Lives...
Empowering Communities...

Economic Costs of Imperfect Competition

Dr. Madhumita Das



Centurion
UNIVERSITY

*Shaping Lives...
Empowering Communities...*

The Cost of Inflated Prices and Reduced Output

- Imperfect competitors reduce output and raise prices, thereby producing less (and charging more) than would be forthcoming in a perfectly competitive industry. This can be seen most clearly for monopoly, which is the most extreme version of imperfect competition.
- To see how and why monopoly keeps output too low, imagine that all other industries are efficiently organized.
- In such a world, price is the correct economic standard or measure of scarcity; price measures both the marginal utility of consumption to households and the marginal cost of production to firms.



Centurion
UNIVERSITY
*Shaping Lives...
Empowering Communities...*

Continued

- Now Monopoly Inc. enters the picture. A monopolist is not a wicked firm—it doesn't rob people or force its goods down consumers' throats.
- Rather, Monopoly Inc. exploits the fact that it is the sole seller and raises its price above marginal cost (i.e., $P > MC$).
- Since $P > MC$ is necessary for economic efficiency, the marginal value of the good to consumers is therefore above its marginal cost.
- The same is true for oligopoly and monopolistic competition, as long as companies hold prices above marginal cost.



Centurion
UNIVERSITY

*Shaping Lives...
Empowering Communities...*

The Static Costs of Imperfect Competition

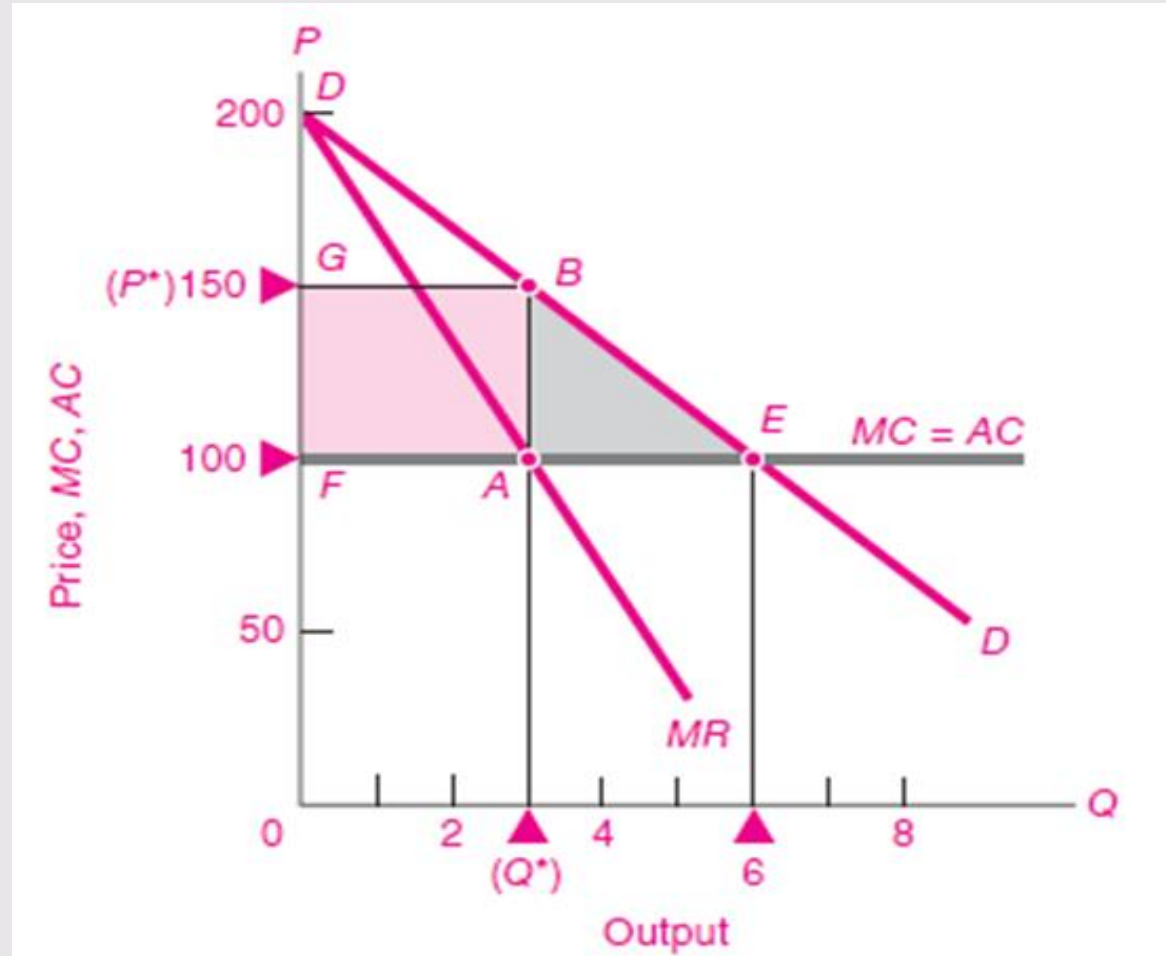
We can depict the efficiency losses from imperfect competition by using a simplified version of our monopoly diagram.



Centurion
UNIVERSITY

Shaping Lives...
Empowering Communities...

Monopolists Cause Economic Waste by Restricting Output





Centurion
UNIVERSITY

*Shaping Lives...
Empowering Communities...*

Monopolists make their output scarce and thereby drive up price and increase profits. If the industry were competitive, equilibrium would be at point E, where economic surplus is maximized.



Centurion
UNIVERSITY
*Shaping Lives...
Empowering Communities...*

Happy Learning

