

Topic 4. Natural Monopoly

What is a natural monopoly?

A natural monopoly exists in a particular market if a single firm can serve that market at lower cost than any combination of two or more firms.

What is an example of a natural monopoly?

For example, the utility industry is a natural monopoly. The utility monopolies provide water, sewer services, electricity transmission, and energy distribution such as retail natural gas transmission to cities and towns across the country.

What are the characteristics of a natural monopoly?

Natural Monopoly Characteristics are:

- ❖ Naturally Occurring. One of the most important aspects of a natural monopoly is that it is natural
- ❖ Large Fixed Costs. A natural monopoly has extraordinarily large fixed costs
- ❖ Low Marginal Costs
- ❖ Long Economies of Scale
- ❖ Competition is Undesirable

Is natural monopoly good or bad?

Monopolies over a particular commodity, market or aspect of production are considered good or economically advisable in cases where free-market competition would be economically inefficient, the price to consumers should be regulated, or high risk and high entry costs inhibit initial investment in a necessary sector.

What are the benefits of a natural monopoly?

A natural monopoly is allowed to exist and flourish in the market because it can supply specific service or product at a cost that is very lower than any potential rival can and that too in bulk to meet the demand of an entire market.

What are the five dangers of a monopoly?

Monopolies can be criticized because of their potential negative effects on the consumer, including:

- ❖ Restricting output into the market
- ❖ Charging a higher price than in a more competitive market
- ❖ Reducing consumer surplus and economic welfare
- ❖ Restricting choice for consumers

- ❖ Reducing consumer sovereignty

Are natural monopolies illegal?

Monopolies are illegal within the United States, but there are circumstances where a natural monopoly can occur. In these circumstances, a market or market sector has barriers to entry that are so prohibitively high that only one firm, or a few firms (known as an oligopoly), have a presence there.

What are some of the challenges caused by natural monopoly?

A natural monopoly poses a difficult challenge for competition policy, because the structure of costs and demand seems to make competition unlikely or costly. A natural monopoly arises when average costs are declining over the range of production that satisfies market demand.

Why does capitalism cause monopoly?

Capitalism does not cause monopoly, it promotes competition. Government action[socialism] causes monopoly. As long as the government does not interfere with the economy a monopoly will eventually collapse because as margins increase competition will step in to eliminate the monopoly.

What makes a monopoly illegal?

Competitors may be at a legitimate disadvantage if their product or service is inferior to the monopolist's. But monopolies are illegal if they are established or maintained through improper conduct, such as exclusionary or predatory acts. This is known as anticompetitive monopolization.

How does natural monopoly differ from a legal monopoly?

Legal monopoly can be controlled and run by the government. It can also be controlled by the government but run independently. A natural monopoly is the second category of a monopoly. Unlike legal monopoly, natural monopoly's entry barriers are factors that are not related to legal prohibitions.

How would a government regulate a natural monopoly?

The government can regulate monopolies through:

- ❖ Price capping - limiting price increases.
- ❖ Regulation of mergers.