What is Monopoly?

Worksheet

A monopoly is a market with one dominant firm, no close substitutes, and high barriers to entry — the monopolist is a price maker with control over price and quantity.

Questions

1. A monopoly can maintain above-normal profit because…

A) Customers are not rational
B) Barriers to entry prevent competitors
C) Monopoly has no costs
D) Monopoly sells infinite quantity

2. Example of a modern monopoly:

A) Airlines (many competitors)
B) Utilities with exclusive license
C) Smartphones (Apple, Samsung, Google)
D) Coffee shops

3. Monopolist's pricing strategy compared to perfect competition:

A) Same
B) Monopoly raises price, restricts quantity
C) Monopoly lowers price
D) No difference

4. What barrier to entry is created by a patent?

A) Temporary monopoly (patent period)
B) No barrier
C) Only for large firms
D) Allows free entry

5. A utility company is the sole provider of electricity in a region with a government license. Monopoly?

6. Pharmaceuticals: firm holds a patent on a drug. Can competitors enter?

7. Railroad was sole transporter in a region. Is that a monopoly?

8. Define: Key difference: monopoly vs. perfect competition?

9. Define: What are barriers to entry in monopoly?

10. Define: Is monopoly price maker or price taker?

Answer Key

1. B) Barriers to entry prevent competitors — High barriers prevent entry by competitors; monopolist keeps above-normal profit.
2. B) Utilities with exclusive license — Utilities often have government-granted monopolies; others are oligopolies or competitive.
3. B) Monopoly raises price, restricts quantity — Monopoly: downward-sloping demand, raises P and restricts Q for higher profit.
4. A) Temporary monopoly (patent period) — Patent grants temporary monopoly; blocks competitors during patent term.
5. Yes — one seller (firm), no close substitutes (electricity), government license = high barrier to entry. Monopoly.
6. During patent term: no — patent is a high barrier. Monopoly profits possible. After expiry: generics enter, profits fall.
7. Yes — one firm, high capital/scale barriers, no close substitutes. Historical railroad monopolies common.
8. Monopoly: one firm, barriers. Perfect: many firms, free entry. Monopoly has price power; perfect competition doesn't.
9. Patents, economies of scale, exclusive licenses, control of key resources, high startup costs.
10. Price maker — monopolist controls price and quantity; can sustain above-normal profit.