HE 107
Unit 5

Comparision Between Perfect Competition and Monopoly.

1. Output and Price:

Under perfect competition price is equal to marginal cost at the equilibrium output. While under monopoly, the price is greater than average cost.

2. Equilibrium:

Under perfect competition equilibrium is possible only when MR = MC and MC cuts the MR curve from below. But under simple monopoly, equilibrium can be realized whether marginal cost is rising, constant or falling.

3. Entry:

Under perfect competition, there exist no restrictions on the entry or exit of firms into the industry. Under simple monopoly, there are strong barriers on the entry and exit of firms.

4. Discrimination:

Under simple monopoly, a monopolist can charge different prices from the different groups of buyers. But, in the perfectly competitive market, it is absent by definition.

5. Profits:

The difference between price and marginal cost under monopoly results in super-normal profits to the monopolist. Under perfect competition, a firm in the long run enjoys only normal profits.

6. Supply Curve of Firm:

Under perfect competition, supply curve can be known. It is so because all firms can sell desired quantity at the prevailing price. Moreover, there is no price discrimination. Under monopoly, supply curve cannot be known. MC curve is not the supply curve of the monopolist.

7. Slope of Demand Curve:

Under perfect competition, demand curve is perfectly elastic. It is due to the existence of large number of firms. Price of the product is determined by the industry and each firm has to accept that price. On the other hand, under monopoly, average revenue curve slopes downward. AR and MR curves are separate from each other. Price is determined by the monopolist. It has been shown in Figure 10.

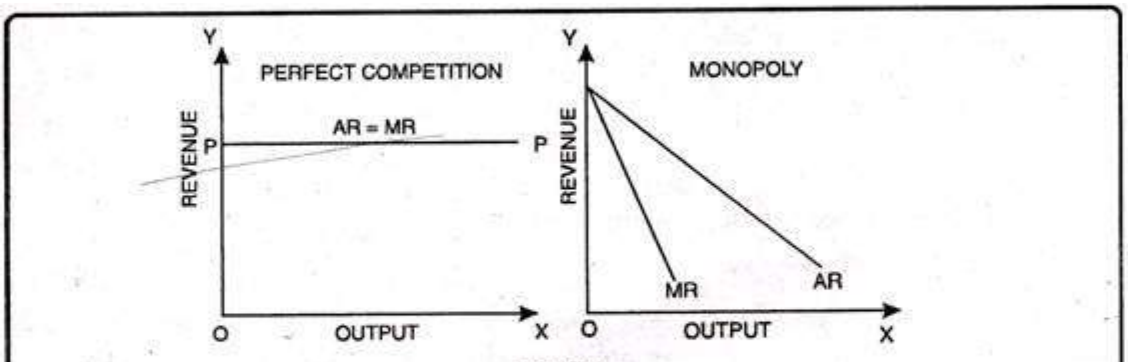

Fig. 10.

8. Goals of Firms:

Under perfect competition and monopoly the firm aims at to maximize its profits. The firm which aims at to maximize its profits is known as rational firm.

9. Comparison of Price:

Monopoly price is higher than perfect competition price. In long period, under perfect competition, price is equal to average cost. In monopoly, price is higher as is shown in Fig. 11. The perfect competition price is OP_1, whereas monopoly price is OP. In equilibrium, monopoly sells ON output at OP price but a perfectly competitive firm sells higher output ON_1 at lower price OP_1.

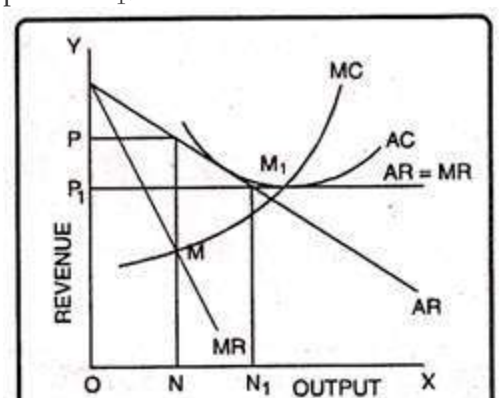

Fig. 11.

10. Comparison of Output:

Perfect competition output is higher than monopoly price. Under perfect competition the firm is in equilibrium at point M_1 (As shown in Fig. 11 (a)), AR = MR = AC = MC are equal. The equilibrium output is ON_1. On the other hand monopoly firm is in equilibrium at point M where

MC=MR. The equilibrium output is ON. The monopoly output is lower than perfectly competitive firm output.