

## 5.2 Lecture 12: Monopoly II

### 5.2.1 Origins of monopoly

- **Natural monopoly** occurs when when a single firm's average cost continuously declines over the relevant output range, due to very high fixed costs and low marginal costs.
- Government-created monopolies include state provision (postal services, utilities) and patents.

### 5.2.2 Addressing monopolies

- Mandating  $p = MC$  eliminates monopoly power and deadweight loss but requires knowing the true competitive price
- Setting  $p$  too low can shrink output below even monopoly levels, reducing total welfare

### 5.2.3 TO KNOW – Conceptual Understanding

- Know reasons monopoly may rise
- Discuss the pros and cons of patents

### 5.2.4 TO KNOW – Graphical and Math Understanding

- Graphically show the welfare impact of patents
- Graphically show the welfare effects of government regulation of monopolies

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