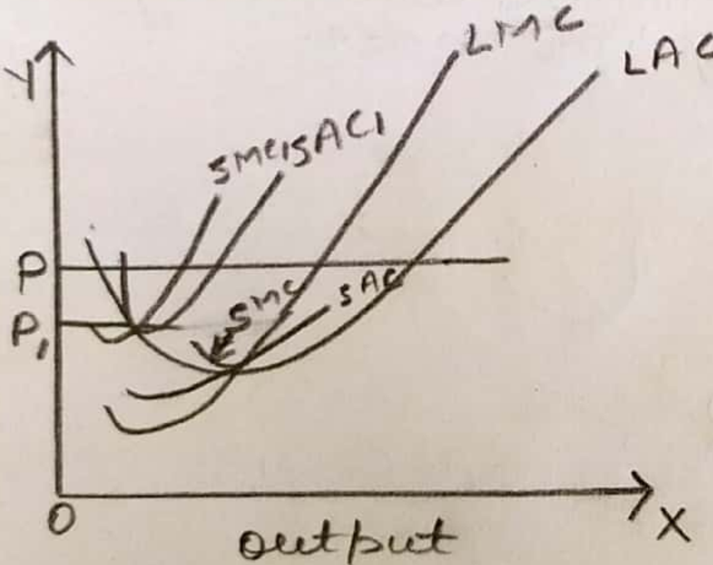
Topic- Price and output determination under Monopoly

Monopoly - Firm like a competitive firm, reaches its equilibrium when it maximizes its total Profits. Its profits are maximum when two conditions are fulfilled :-

1. The MC is equal to MR
2. slope of MC is greater than the slope of MR at the point of intersection.

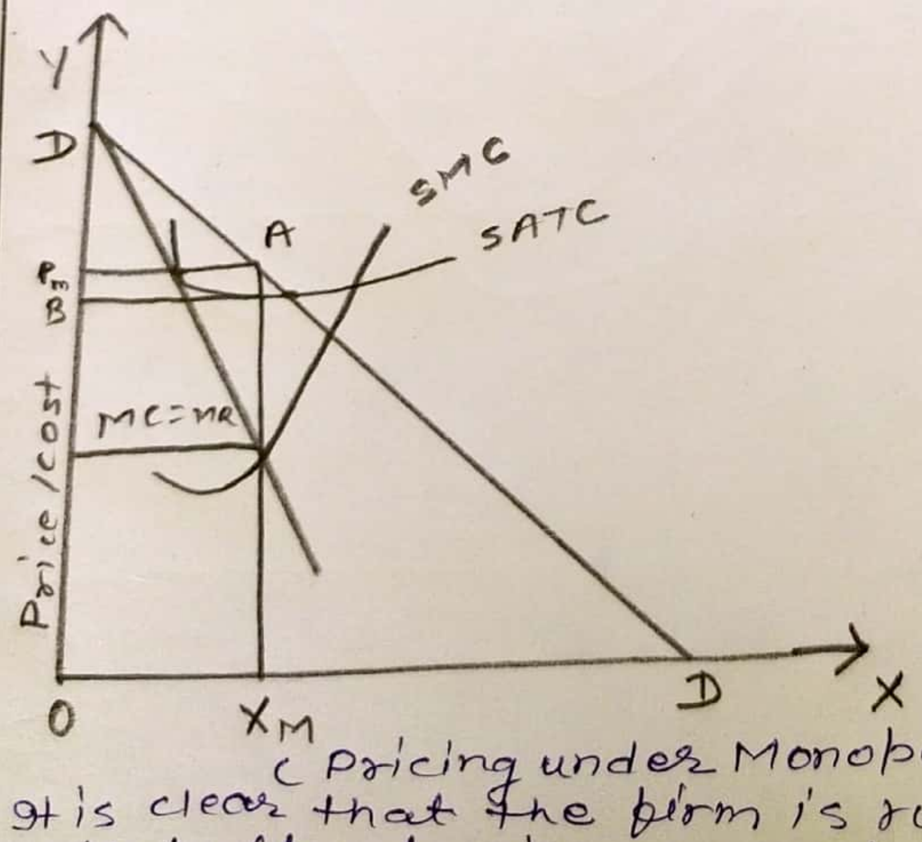


The equilibrium of the monopolist is defined by the point E at which MC intersects MR from below. thus both conditions for equilibrium are fulfilled. Price is PM and quantity is Xm. The monopolist realises excess profit equal to shaded area PMBCA Here the price is higher than AC.

Long run equilibrium of Monopolist

In the long run- monopolist uses his

existing plant at any level which will maximize his profit since the entry of new firms is totally blocked. The only necessary thing is that the monopolist will not stay in business if he makes losses in the long run. He will most probably continue to earn super normal profit even in the long run because entry is barred. When the market size is just large enough, it permits the monopolist to build the optimal plant and use it at full capacity.



(Pricing under Monopoly in short run)

It is clear that the firm is running at its full capacity. There is no certainty that in the long run the monopolist will reach its optimal stage.