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Notes – Module 7

Perfect Monopoly

I. Characteristics
   a. Only one seller
   b. No other product is closely substitutable.
   c. The seller can set the product's price by controlling output.

II. Demand
   a. Exactly the market demand curve – downward sloping and possibly even inelastic.
   b. Because raising prices into the inelastic part of a demand curve decreases total revenue, a monopolist will only raise prices in the elastic region.

III. Profit Maximization
   a. The MC = MR rule still applies, but the *price* at which MC = MR is not the price that will actually be charged.
   b. The price is always indicated by the demand curve, though MC and MR will both be below D at the profit-maximizing quantity.