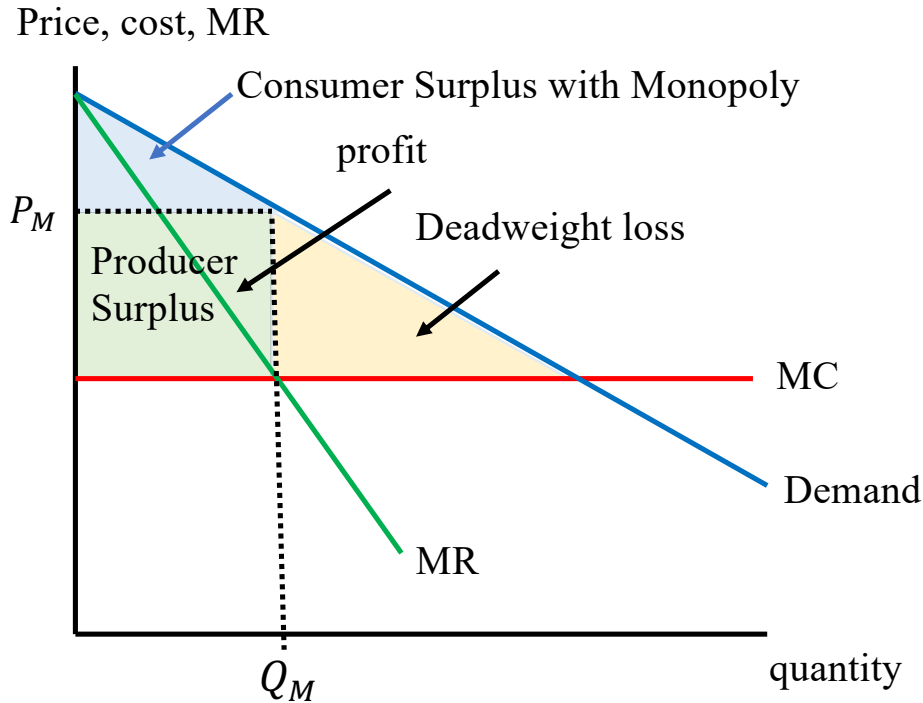




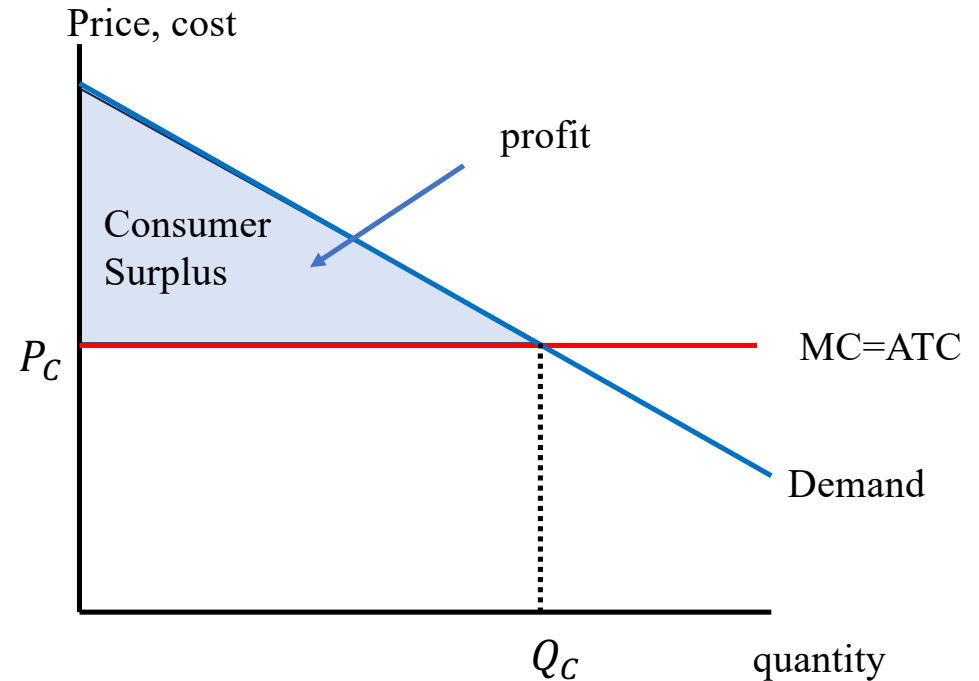
Monopoly Welfare

EE211

Monopoly Causes Inefficiency



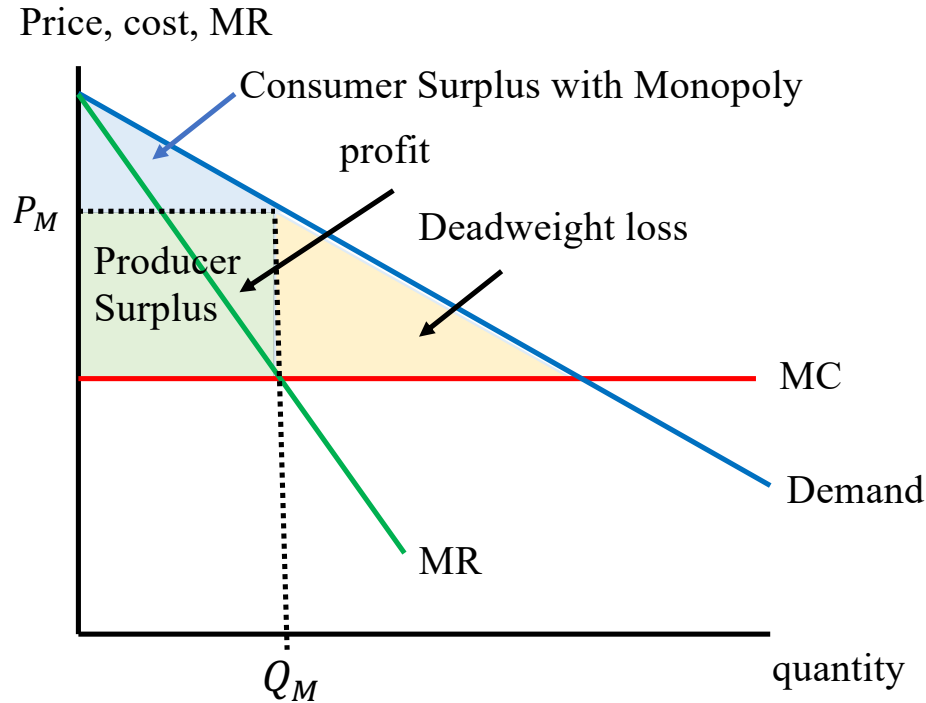
(a) Total surplus with Monopoly



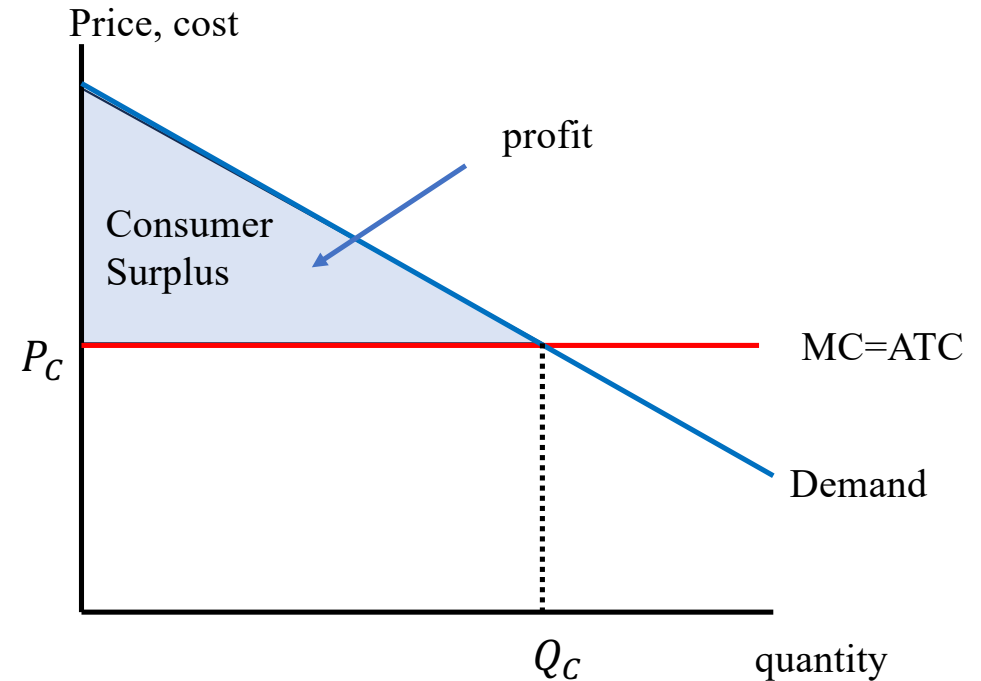
(b) Total surplus with Perfect competition

Panel (a) depicts the industry under monopoly: the monopolist decreases output to Q_M and charges P_M . Total surplus in this market equals the sum of producer surplus (profit) and consumer surplus. Total surplus falls: the deadweight loss represents the value of mutually beneficial transactions that do not occur because of monopoly behavior.

Welfare with and without Price Discrimination



(a) Monopolist with single price



(b) Monopolist with perfect price discrimination

Panel (a) shows a monopoly that charges the same price to all customers. Total surplus in this market equals the sum of producer surplus (profit) and consumer surplus.

Panel (b) shows a monopoly that can price discriminate perfectly. Because consumer surplus equals zero, total surplus now equals the firm's profit.

Comparing these two panels, you can see that perfect price discrimination raises profit, raises total surplus, and lowers consumer surplus.

References

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