Market Power and Market Failure

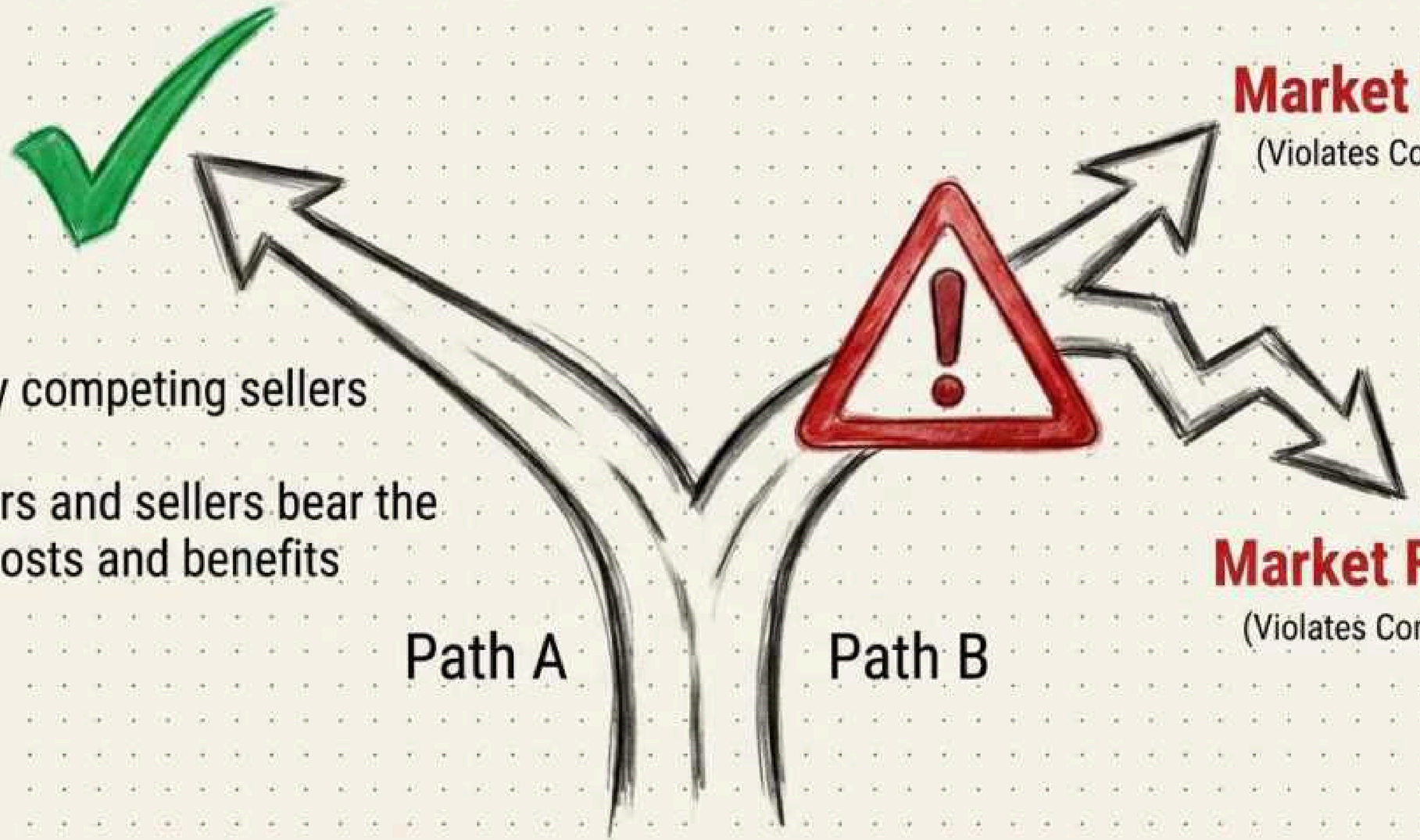
¶ 6.1



- *Monopoly*
- *Oligopoly*
- *Externalities*
- *Public Goods*
- *Information*
- *Common Resources*

The Conditions for a Working Market

¶ 6.2



The Moat Around a Monopoly

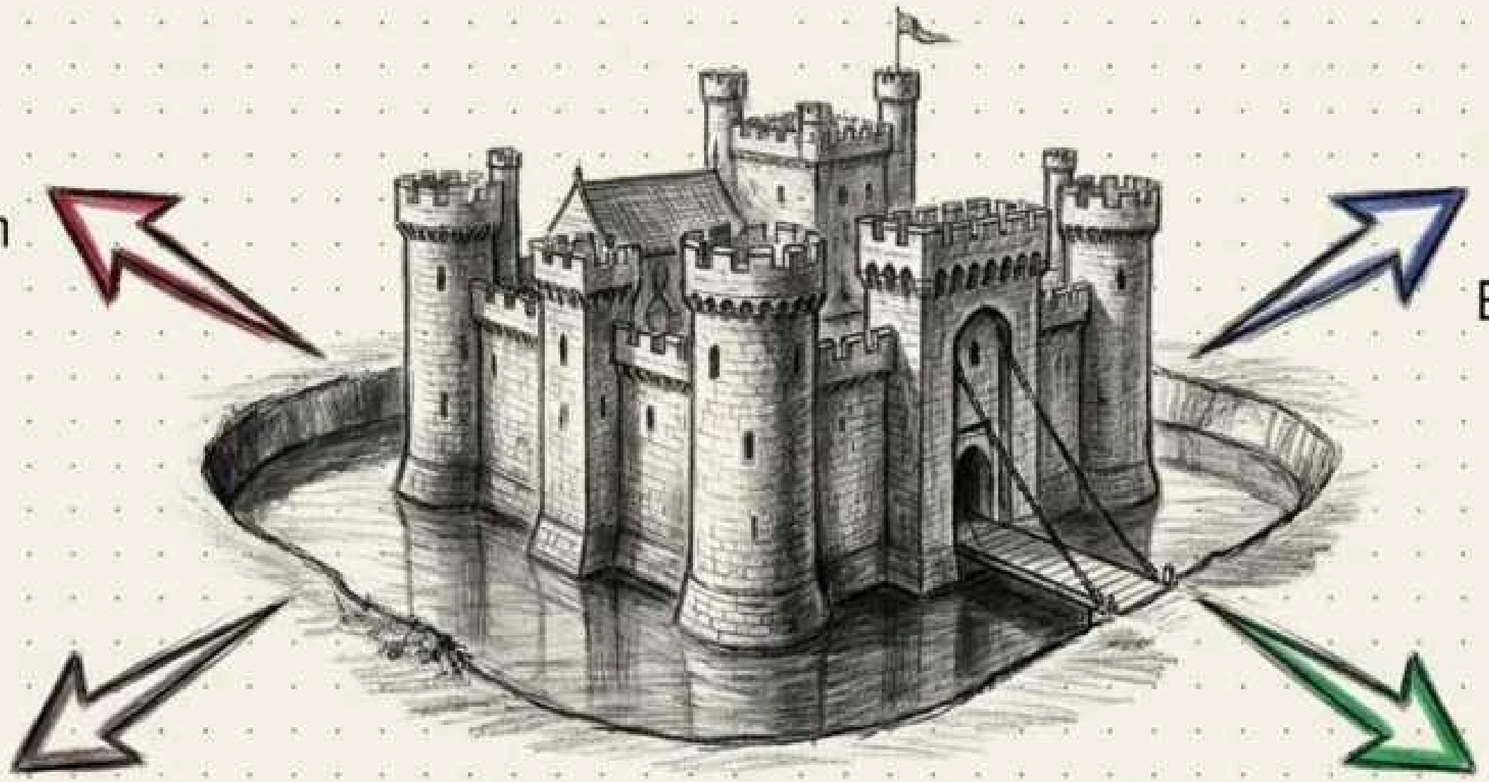
¶ 6.3

Patents

Legal protection of invention.

Government Licenses

Exclusive legal rights.

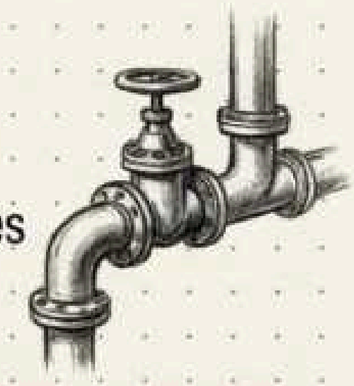


Control of Resources

Owning key inputs.

Economies of Scale

Natural Monopoly: One firm serves the market at the lowest cost.



Facing the Whole Market Demand

¶ 6.4

Quantity (Q)	Price (P)	Total Revenue (TR)
40	$6	$240
50	$5	$250

10 extra slices add only $10.

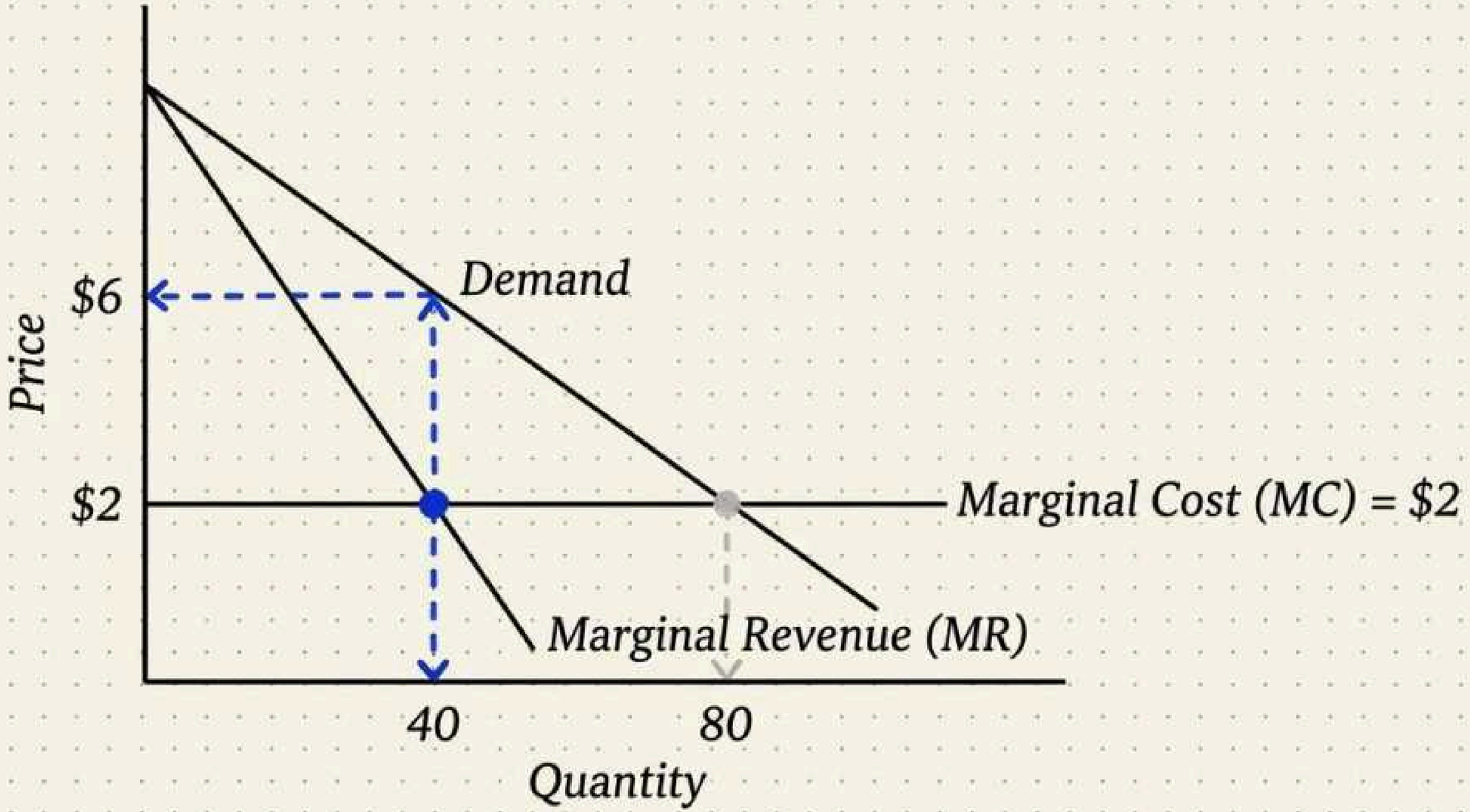
$$MR = \frac{\Delta TR}{\Delta Q} = \frac{\$10}{10} = \$1$$

Marginal Revenue ($1) < Price ($5).



The Monopoly Production Rule

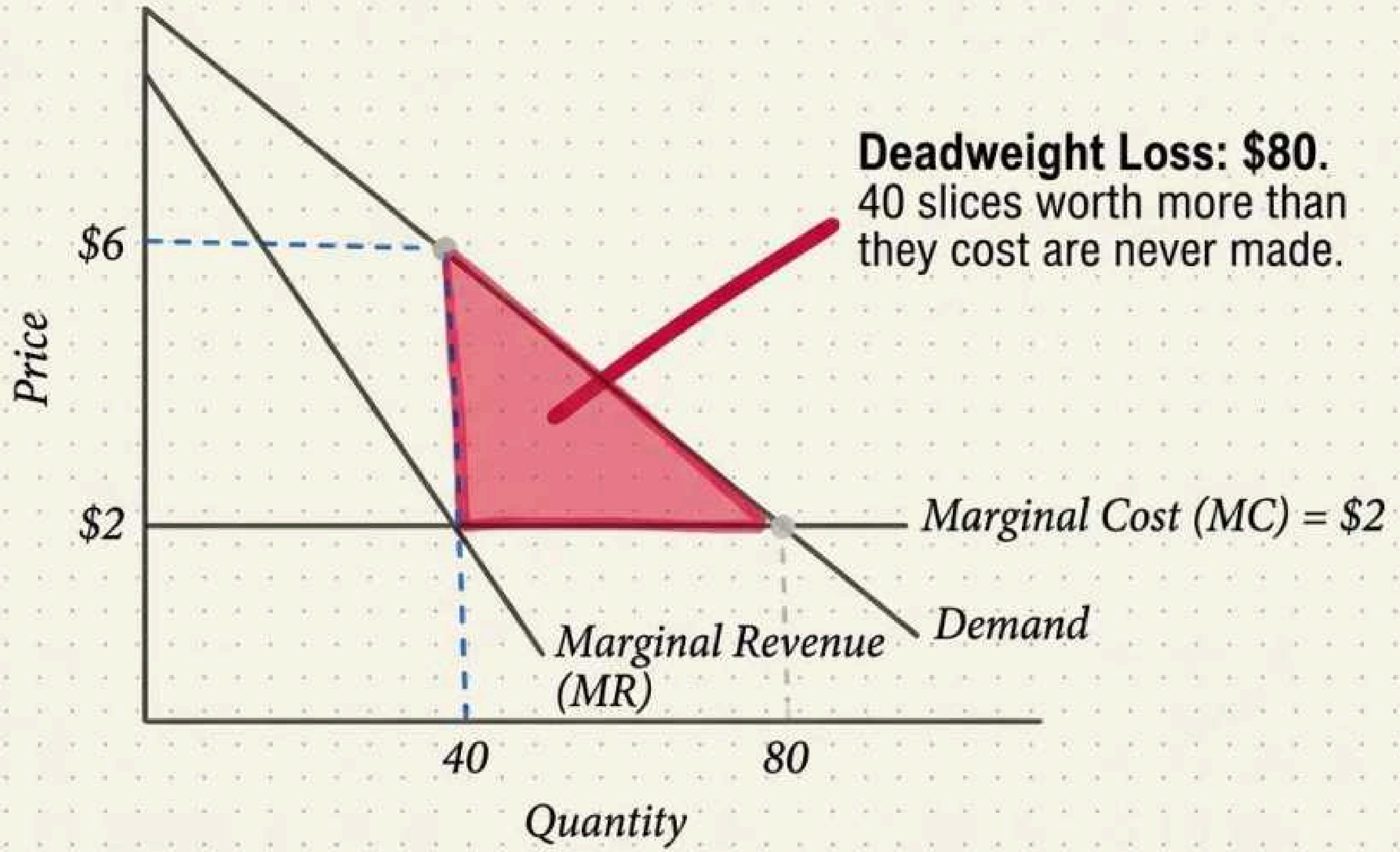
¶ 6.5



Rule: Produce until Marginal Revenue equals Marginal Cost.

Measuring the Deadweight Loss

¶ 6.6



Profit:
$4 margin × 40 slices = $160.

Consumer Surplus:
Drops from $320 to $80.

Total Surplus:
Falls by $80 (from $320 to $240).

Societal Responses to Monopoly

¶ 6.7

Antitrust Law
Prohibits anti-competitive practices and mergers.





Regulation
Sets rules on pricing, often for natural monopolies.

Public Ownership
The government runs the monopoly directly.





Remove Barriers
Encouraging entry by dismantling legal hurdles.

Caution: Regulators make mistakes. Every remedy has limits.

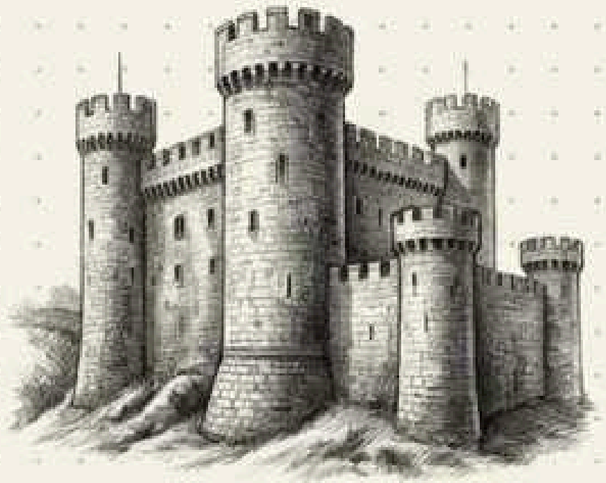
The Spectrum of Competition

¶ 6.8









Perfect Competition

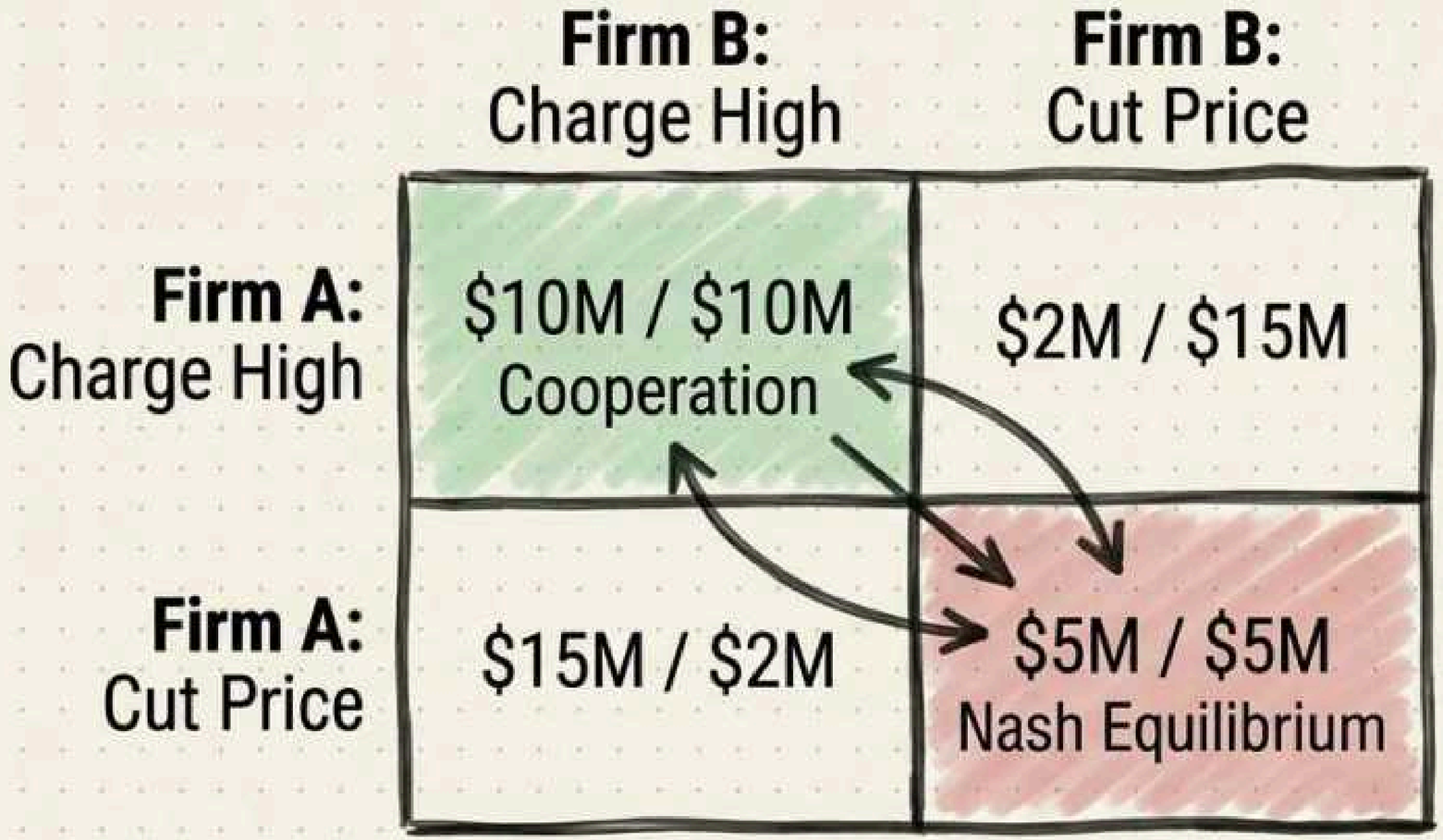
Monopolistic Competition: Many firms, differentiated products.

Oligopoly: Few firms dominate. Tempted to cooperate.

Monopoly

Oligopoly and the Prisoner's Dilemma

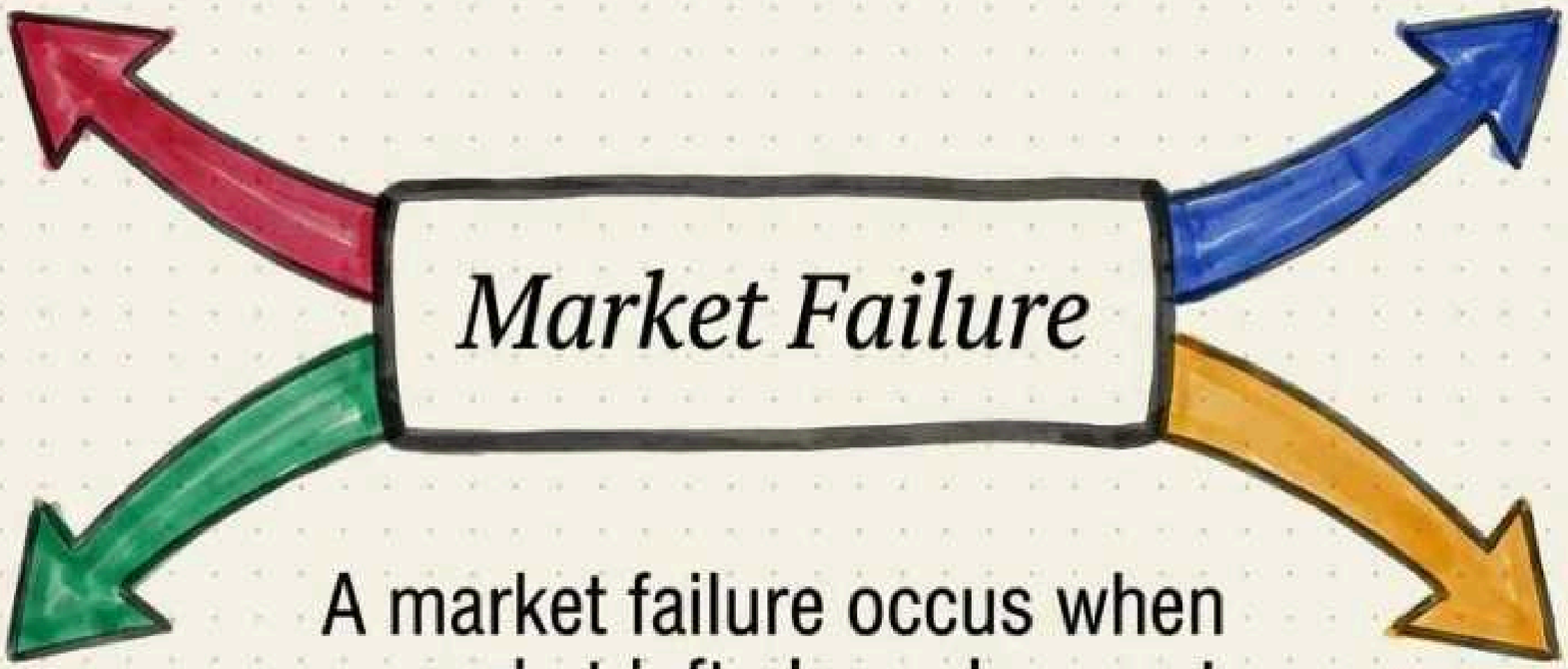
¶ 6.9



Each firm does better by cutting, whatever the other does.
Both end up worse off than if they cooperated.

When Prices Miss Information

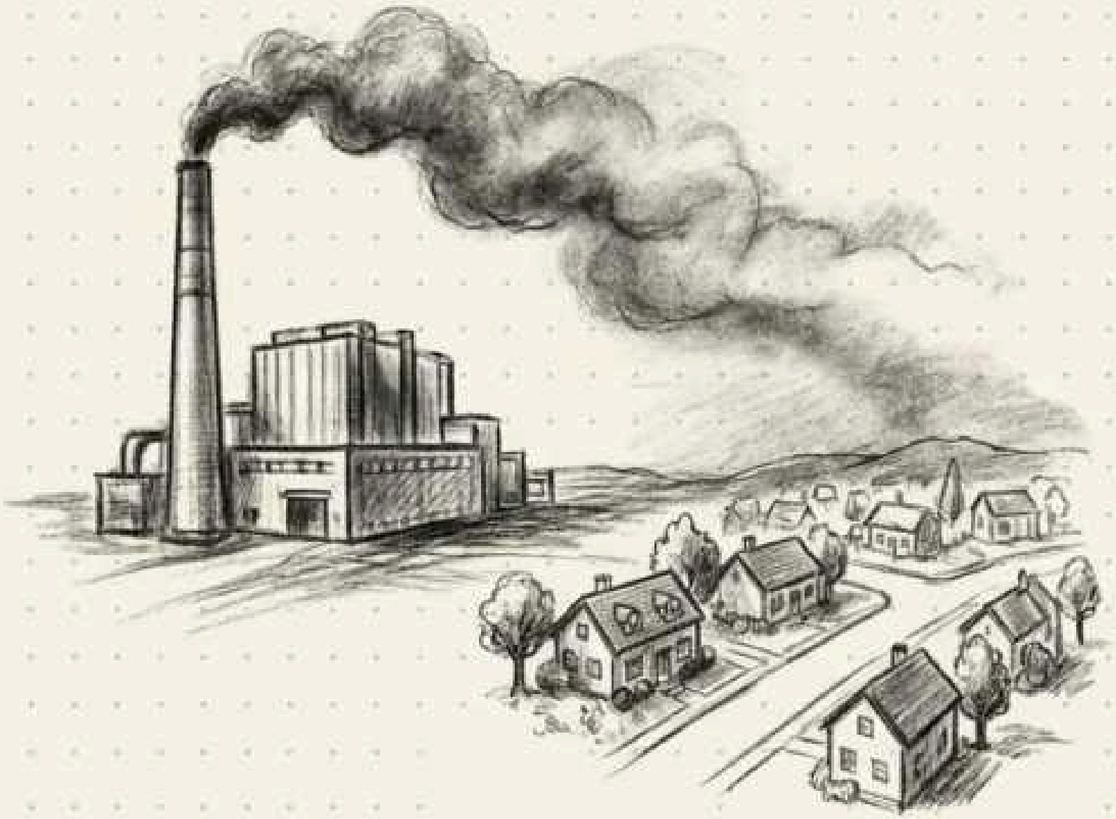
¶ 6.10

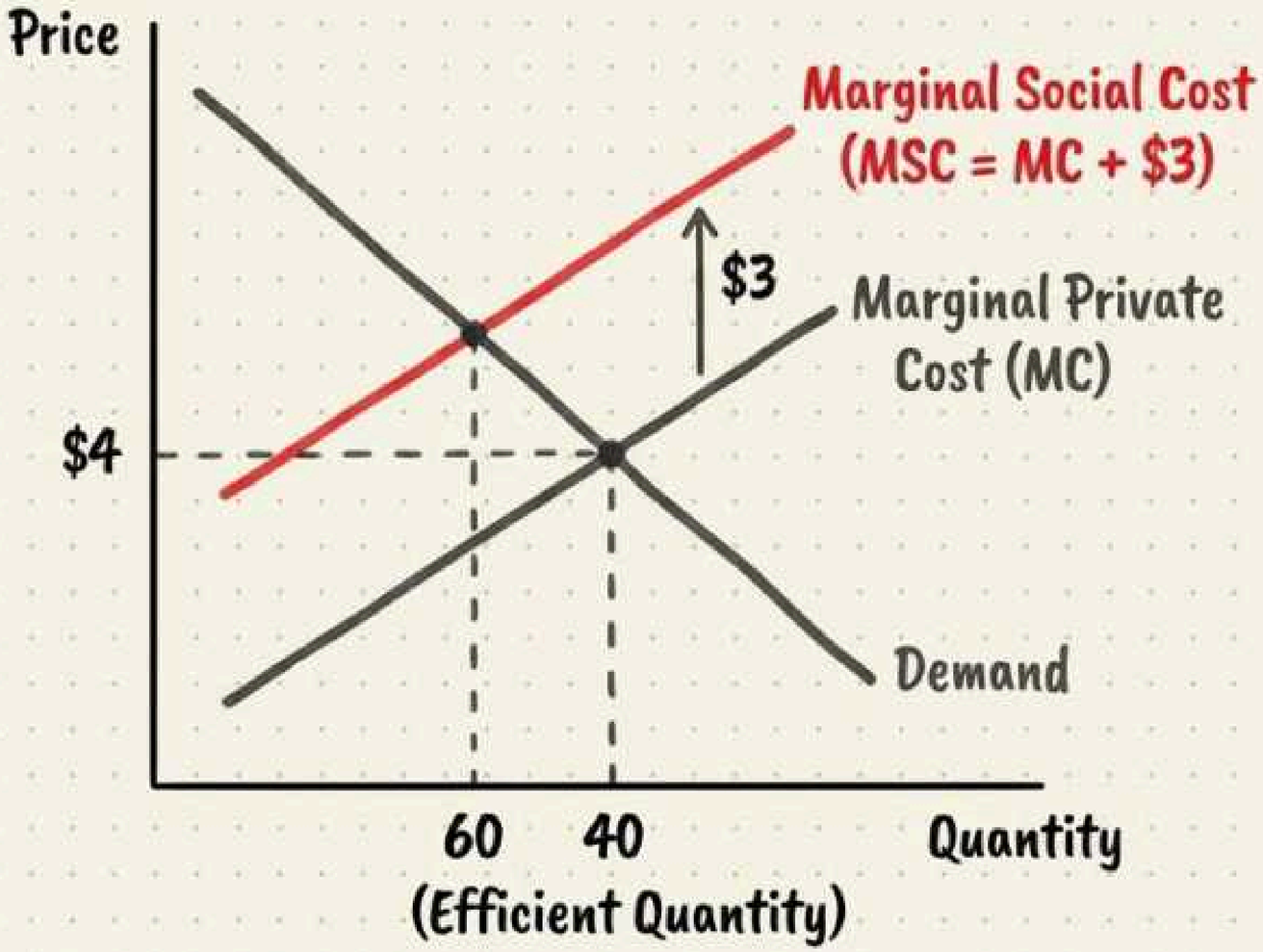


A market failure occus when a market left alone does not allocate resources efficiently because something that matters is left out of the price.

Negative Externalities: Costs Borne by Others

¶ 6.11

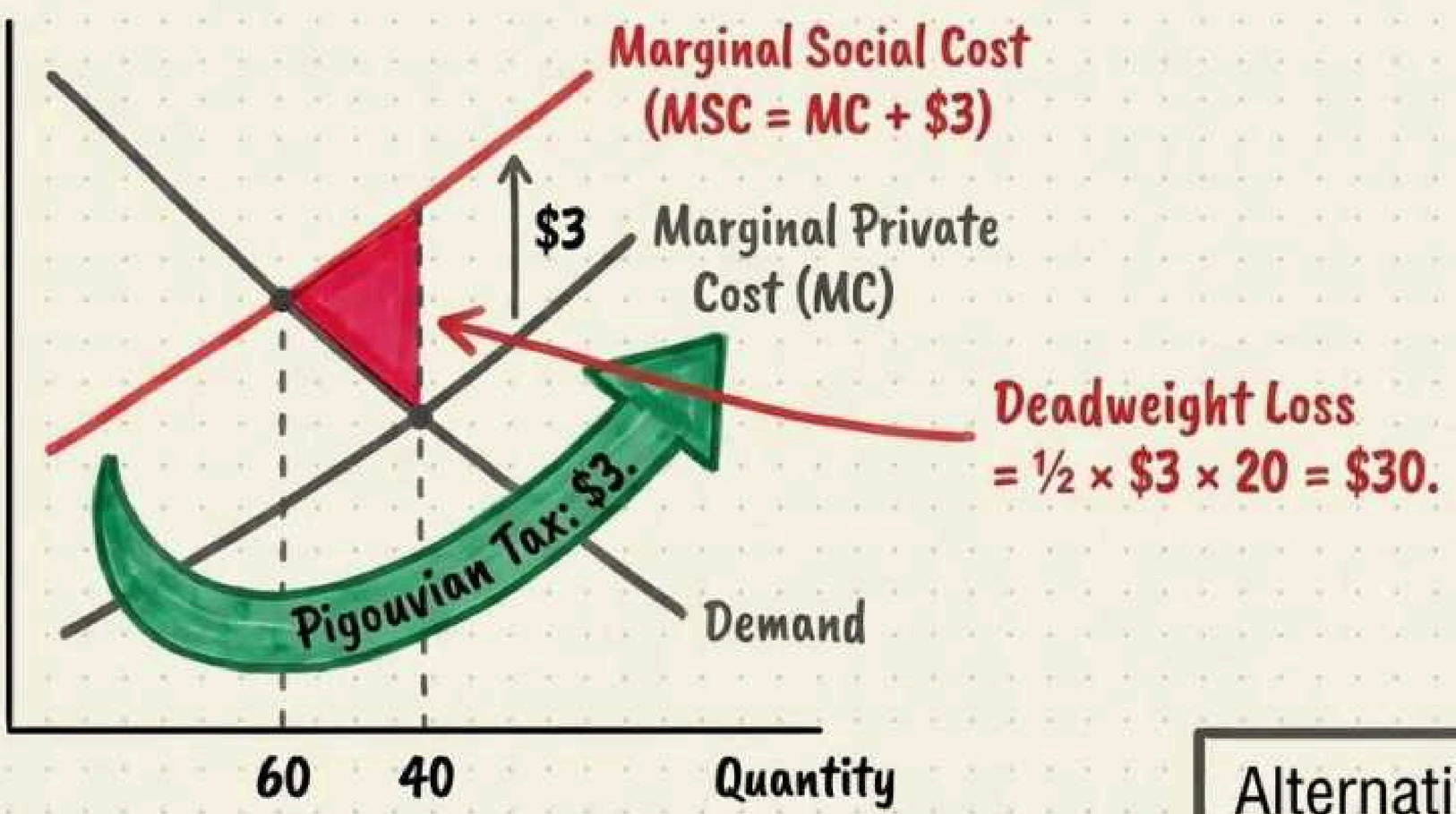




The $4 price ignores the $3 of harm per slice.

Correcting the Market with Taxes

¶ 6.12



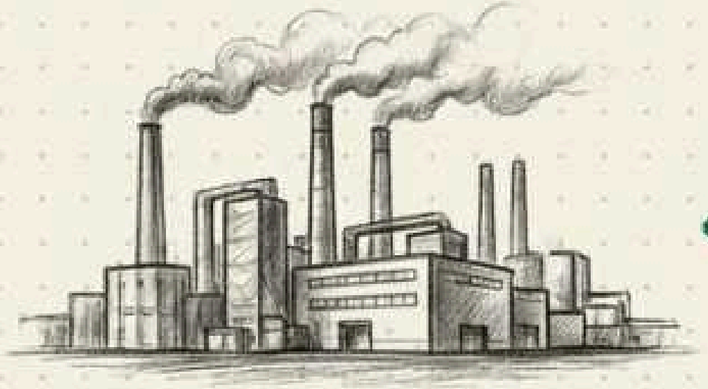
Pigouvian Tax: $3.

A tax equal to the harm makes the polluter face the full cost, cutting quantity to the efficient 40.

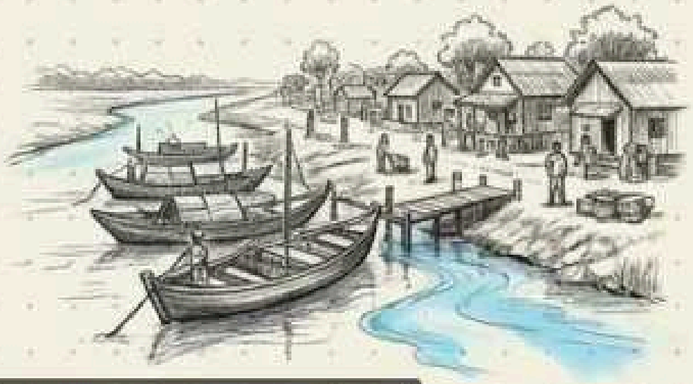
Alternative fixes: Regulation, Tradable Permits.

Property Rights and the Coase Theorem

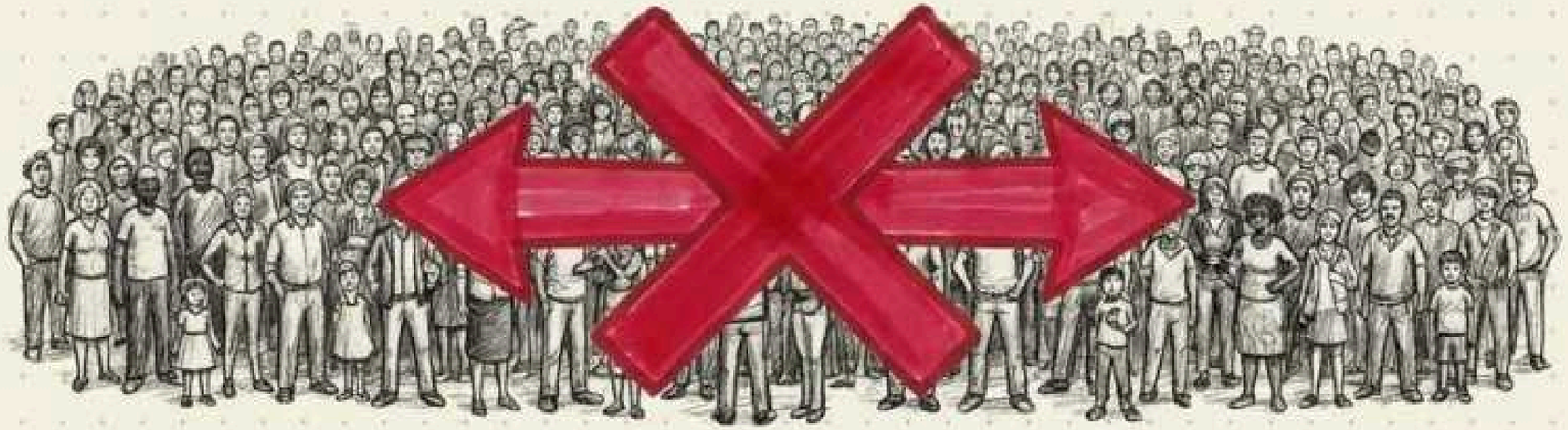
¶ 6.13



Efficient Deal



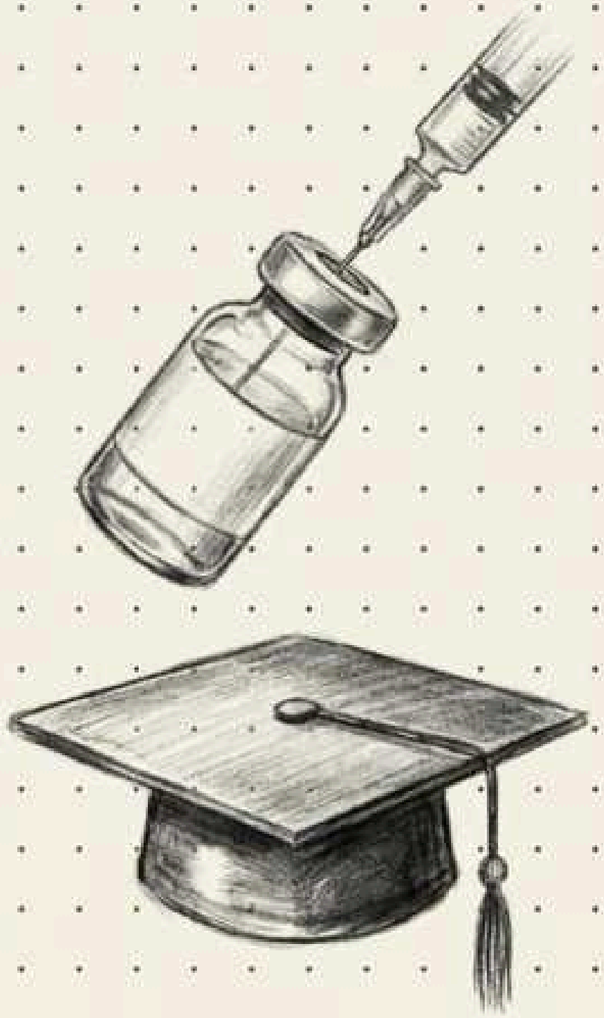
If bargaining is cheap and property rights are clear, parties can negotiate an efficient solution without government intervention.

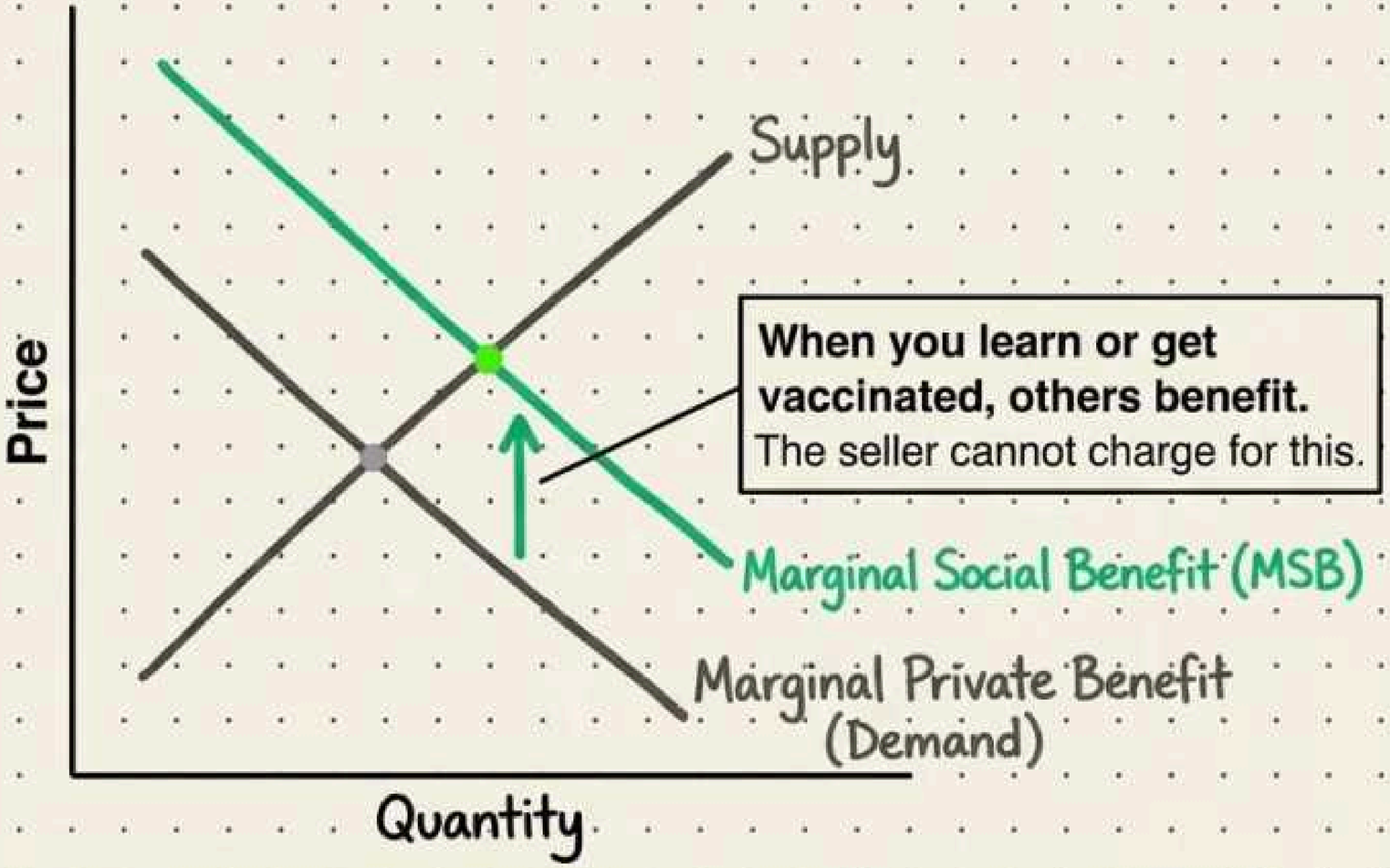


Bargaining fails when many people are involved. This is why rules and taxes are common.

Positive Externalities: Benefits Borne by Others

¶ 6.14





Markets produce too little of these goods.
The fix: Subsidies and public support.

The Free Rider Problem of Public Goods

¶ 6.15

	Excludable	*Non-Excludable*
Rival		
Non-Rival		*Public Goods* 

You cannot stop people from using it, and one's use doesn't reduce another's. Private firms won't supply enough because people will 'free ride.' Paid for via taxes.

Information Asymmetry

¶ 6.16



The Market for Lemons





Buyers offer low prices. Owners of good cars withdraw from the market entirely.

The Tragedy of the Commons

¶ 6.17

	Excludable	*Non-Excludable*
Rival		*Common Resources* 
Non-Rival		

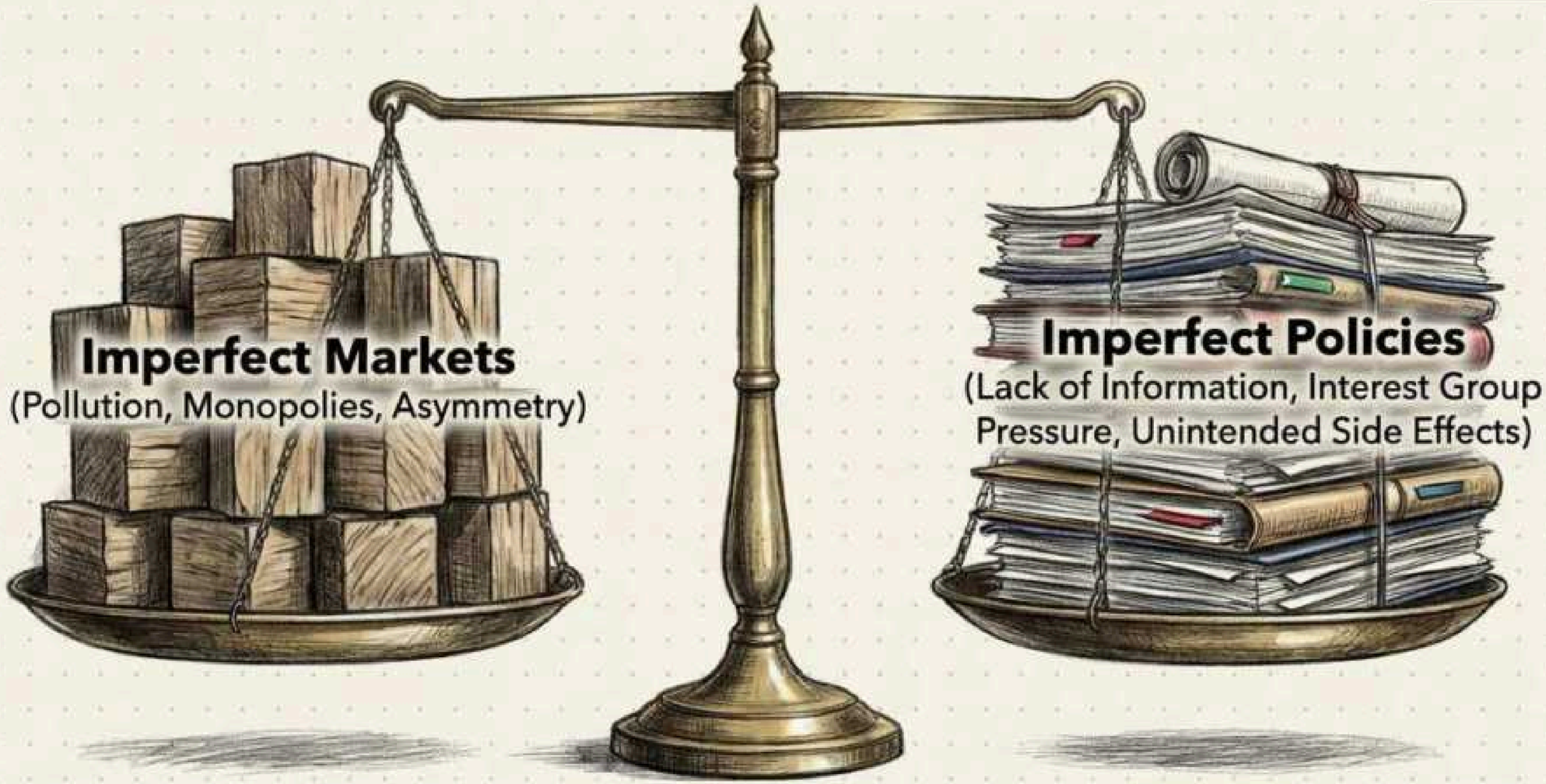
Each fisher gains from catching more, but the cost (a smaller stock) is shared by all. Result: Overuse.

Management Tools:

- ☑ *Fishing quotas*
- ☑ *Permits*
- ☑ *Community rules*

The Limits of Government

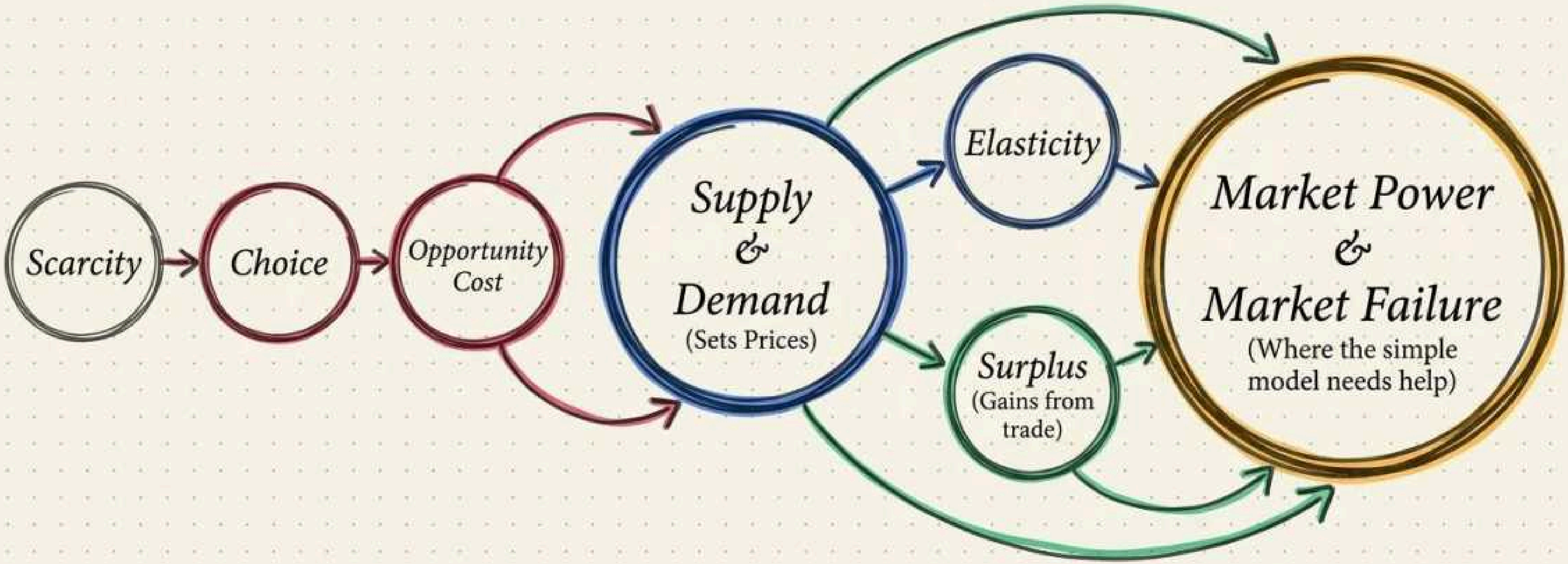
¶ 6.18



Showing a market fails does not prove a government can do better. A sensble approach compares imperfect markets beside imperfect policies to see which does less harm.

The Architecture of Economics 120 B

¶ 6.19

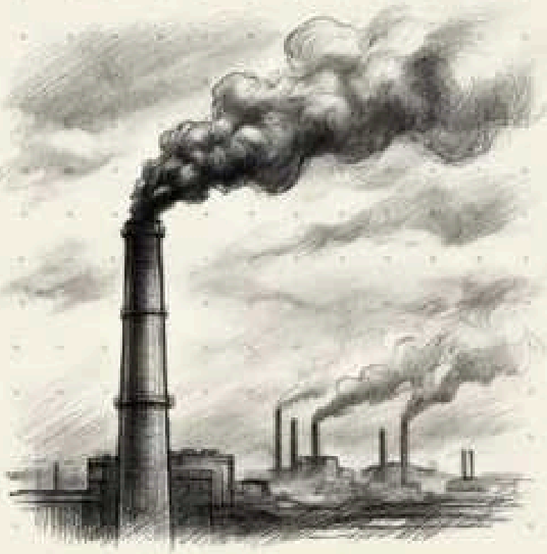


Applying the Toolkit

¶ 6.20



Housing



Pollution



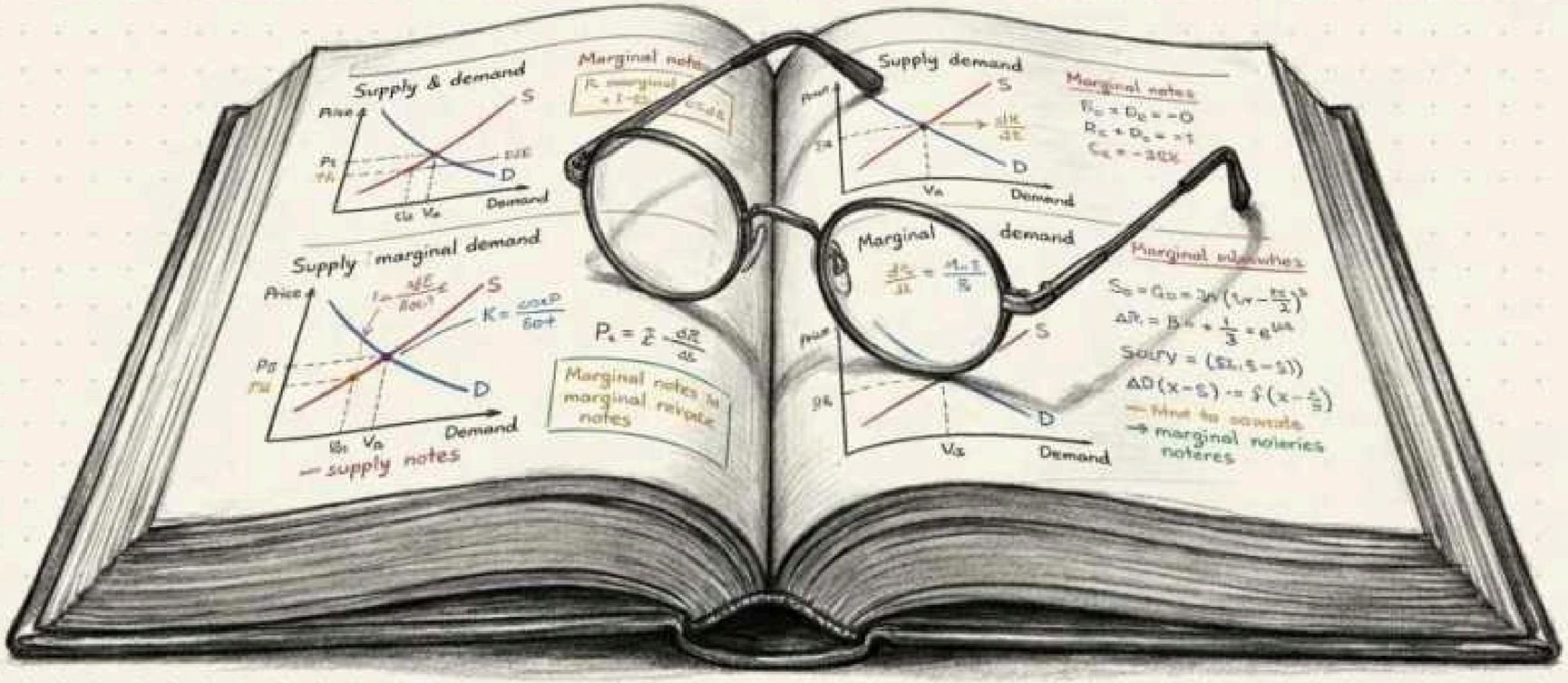
Healthcare

- [x] Is this a fundamental question of scarcity?
- [x] Is there a shift in underlying Demand or Supply?
- [x] Is there a specific Market Failure at play?

What data would you need before judging a policy?

Economics 120 B

¶ 6.21



Thank you for taking Economics 120 B.

Instructor: Gary Anderson (Anderson Academy)
Email: garyanderson@mail.grokbot.com
X (Twitter): @garyanderson