Barriers to entry on monopolies

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Monopoly is market structure in which there is a single seller of a product with no close substitutes. In addition, there are significant barriers to entry such that new firms will find it very difficult or even impossible to enter the market. True monopoly requires one seller, but the additional characteristics are equally important. The lack of close substitutes is necessary if the single seller is to have much market power. For example, in Cape Girardeau, there is only one Chevrolet dealer, Coad of the Road. If buyers wish to purchase a new Chevrolet, they must get it from Coad or drive to another town (about 7 miles to the next dealer). Therefore, Coad of the Road has a monopoly in new Chevrolets in Cape Girardeau. However, there are many close substitutes available for new chevrolets which can be purchased at other dealers: Hondas, Toyotas, Fords, Chryslers, etc. The monopoly that Coad possesses obviously does not convey a lot of market power.

The existence of barriers to entry is also very important to the existence of monopoly. A single seller in a market where entry is easy would have very little market power. If a monopoly seller charged a high price and, as a result, earned economic profits, new sellers would enter the market if no barriers existed. This would obviously erode the monopolist's position very quickly. Clearly, if barriers to entry were present in a monopoly market, the seller will have a much greater degree of market power.

There are several different types of barriers to entry that can exist in markets. One type is product differentiation. In this case, the buyer has come to identify the brand name of the firm with the product. Examples of this would be Kleenex and Jello. Nobody asks you for a paper tissue, they request a Kleenex. Similarly, you would not ask for a bowl of flavored gelatin for dessert, but instead would request a bowl of Jello. In markets where significant product differentiation exists, it is very difficult for new firms to enter. Potential entrants somehow have to overcome the consumers' natural inclination to identify a seller's brand name with the product, and that will not be very easy.

A second type of barriers to entry consists of institutional barriers, which are erected by government. These barriers take on many forms. Firms and individuals are issued patents by government for new products and inventions. Patents last for seventeen years (and are not renewable), during which time the owner of the patent has the sole right to produce and sell that product. This definitely confers a monopoly on the holder of the patent. The reason for granting patents, of course, is to stimulate inventive activity since the resulting new products will benefit all of society. By rewarding inventors with a limited monopoly, there will be an incentive for research and development, which is, of course, the goal of patents.

A second type of institutional barrier includes licensing restrictions by government. Many different occupations (beauticians, barbers, lawyers, doctors, school teachers, nurses, taxicab drivers, etc.) require some type of government license or certificate. Without the license, a person is not allowed to practice a given occupation. What is the purpose of such a requirement? Ostensibly, it is to protect the consumer and guarantee quality. After all, no one wants to go to a physician who has not been to medical school or to be represented by a lawyer with no legal training. For these individuals and others in the health professions, the licensing restrictions seem appropriate. But what about for barbers and beauticians? Are licenses really necessary for these occupations? The worse that can happen to a buyer is to get a lousy haircut. Why not let the market decide who can be a barber and a beautician? If someone is not very good at cutting hair, the market will soon eliminate that person through lack of customers. In addition, I suspect that you have gone to a barber or beautician and received a lousy haircut, even though the individual was properly licensed. So the license doesn't guarantee that the person with the scissors is competent, only that he or she has been to a beauty school or a barber school. If the license doesn't really guarantee quality for the buyer, there is little reason for it except to restrict the supply.

A third type of institutional barrier exists when the government gives exclusive franchise rights to a firm to sell a product. An obvious example of this would be the U.S. Postal Service, which has the sole right to deliver first-class mail. Other examples would include cable TV companies and utility companies as local phone service, electricity, etc. These latter examples are usually perceived as special cases and require further explanation below.

Another type of institutional barrier erected by government is the use of tariffs and quotas. Tariffs are taxes on imported goods while quotas consist of a maximum amount of a good that can be imported into a country. By placing tariffs and quotas on imported goods, foreign firms will find it difficult or even impossible to enter U.S. markets.

The third category of barriers to entry consists of economic barriers. In some markets, production barriers will limit the feasible number of competitors. In the long run, when all resources are variable, firms increase output by expanding their plant size. The firm is said to be experiencing economies of scale when average cost declines in the long run as output expands. Economies of scale are due to such factors as division of labor tasks and specialization, which become possible as the size of the firm's operations increases. For most markets, average costs cease declining at output levels (and then, perhaps, level out over a long range of output) that are relatively small compared to the market size. This means that many firms can operate in such markets and still be efficient by producing where long run average cost is minimized. But in a few markets, average cost in the long run continues to decline over the entire range of market demand. Therefore, one firm supplying the entire market will have much lower average costs of production than would, for example, two firms supplying the same market. Usually, the government will grant a public-utility franchise to an individual firm, giving it the sole right to provide some product to a market. This is the case with local phone service, electricity, etc. In some markets, the economies of scale are large relative to the size of the market such that only a few sellers are possible. This appears to be the case for automobile production, cement, and aluminum production.

Somewhat related to production barriers are financial barriers. In some markets, the initial investment required to construct production facilities is substantial such that new firms may have a difficult time acquiring the necessary money capital. This will especially be the case if economies of scale require entrance into a market on a large scale

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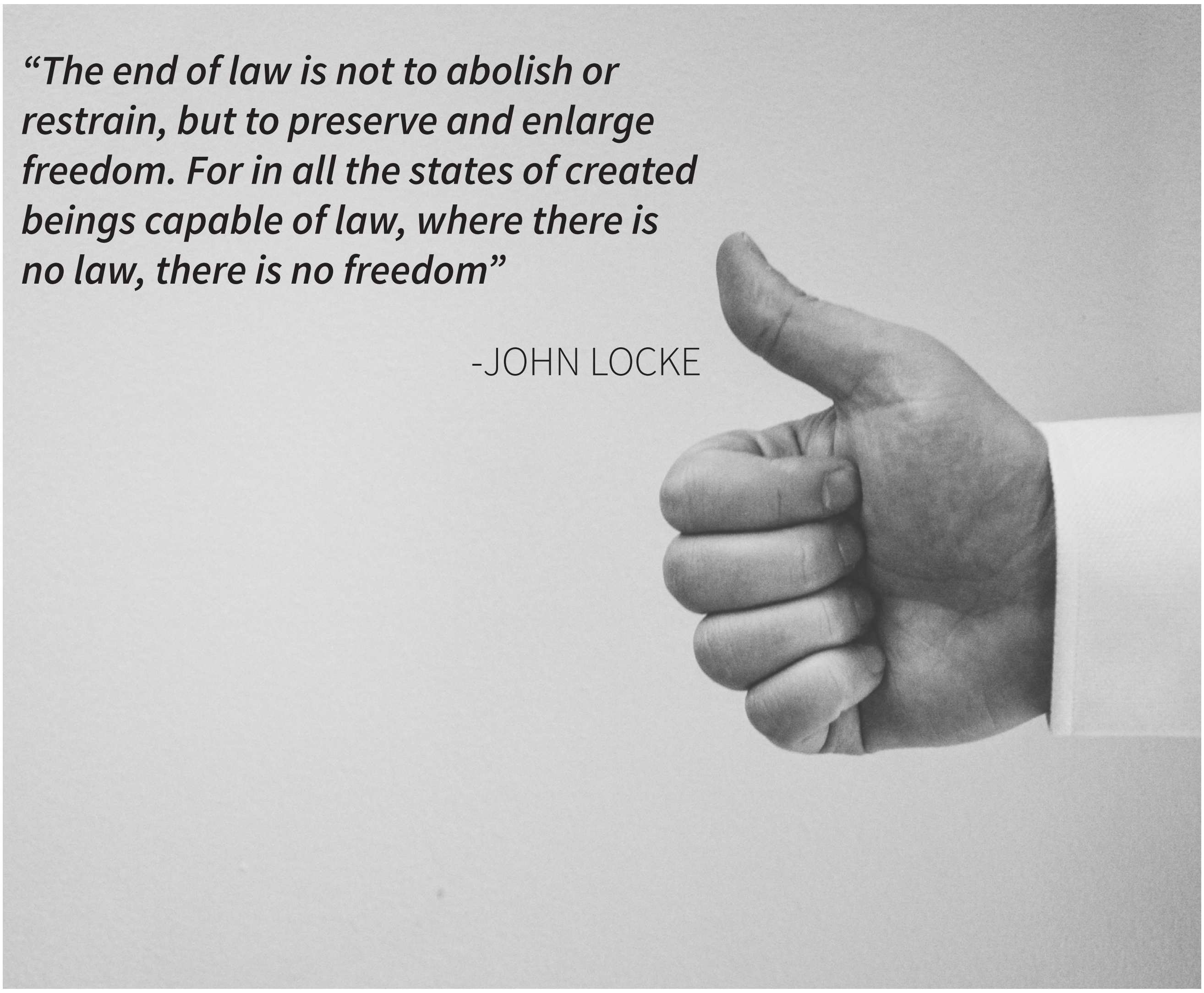

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Xülasə

Məqalədə inhisar vəziyyət mövcud olan bazarlarda sərbəst rəqabətə şərait yaratmayan hallardan biri olan bazara giriş üçün maneə və onun müxtəlif formalarından qısaca bəhs edilmişdir. Ümumilikdə, müxtəlif formalı bazara giriş üçün maneələr sağlam rəqabət mühitinin formalaşmasına mane olan hallardan ən çox rast gəlinən üsulu olmaqla, bazarda inhisar vəziyyətinin formalaşmasına əhəmiyyətli dərəcədə təsir göstərir.

Резюме

В статъе краткю упоминается о различных формах на рынках в монополном положение которые не устанавливает на рынке уславиях для свободной конкуренции и барьер для входа на рынок. В целом, барьеры для доступа на рынки в различных формации препятствует образованию здоровых случаев конкуренции, которые считаютца наиболее распространенным методом на рынке оказываюшей существенное влияние на формирование монопольной ситуации.