Monopoly Power Control And Regulation of Monopoly

Introduction

- Monopoly is known as a great social evil because the monopolist charges high price
- Monopolist does not produce at full capacity and resorts to price discrimination
- Under this system, there is no rival competitor, and sells lesser output but earns more profit. It increases inequality of income. Thus, many steps are suggested regulating monopoly.

Methods For Controlling Monopoly Power

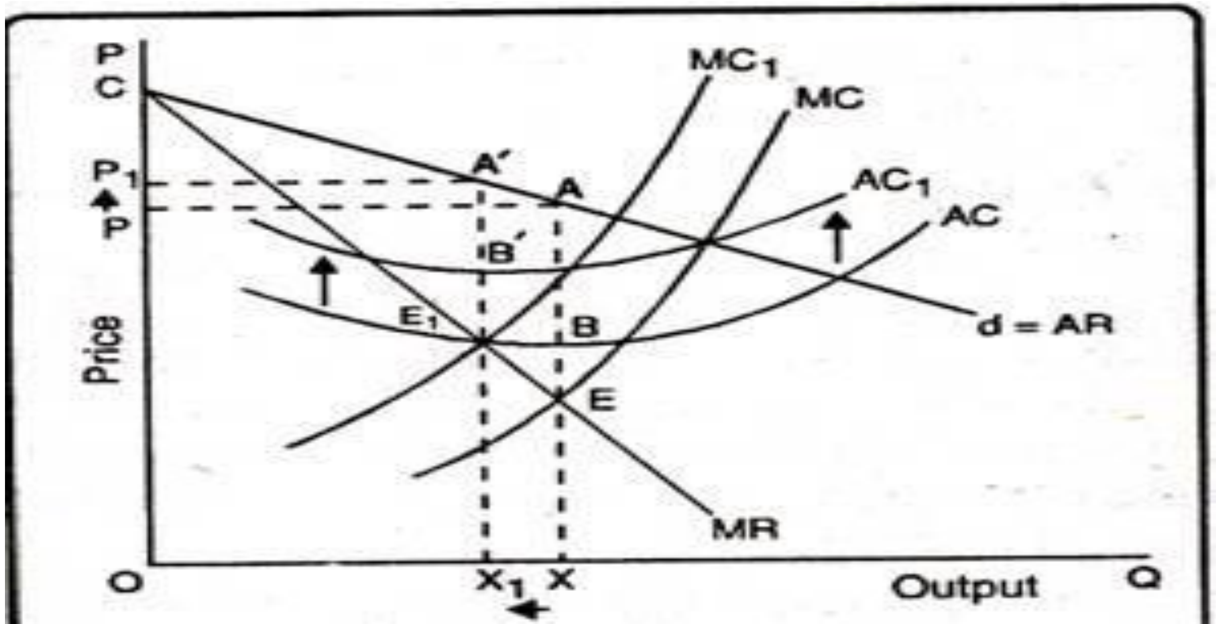
- 1. By regulation through taxation.

- 2. By regulation of conditions of monopoly, as in case of natural and regulated monopolies (MC pricing).

- 3. By anti-monopoly laws and policies to prevent unfair price discrimination amongst different consumers (Peak load pricing).

1- Regulation Through Taxation

- Imposition of tax:-he Govt. can regulate monopoly through taxation. Govt. can levy a tax per unit of output (Specific Tax) or impose a lump sum tax irrespective to its output.
- *A- imposition of specific tax*:-Specific taxes are commodity taxes like excise duty and sales tax. Excise duty are levied on production while sale tax on sales.



Effects of Specific Tax

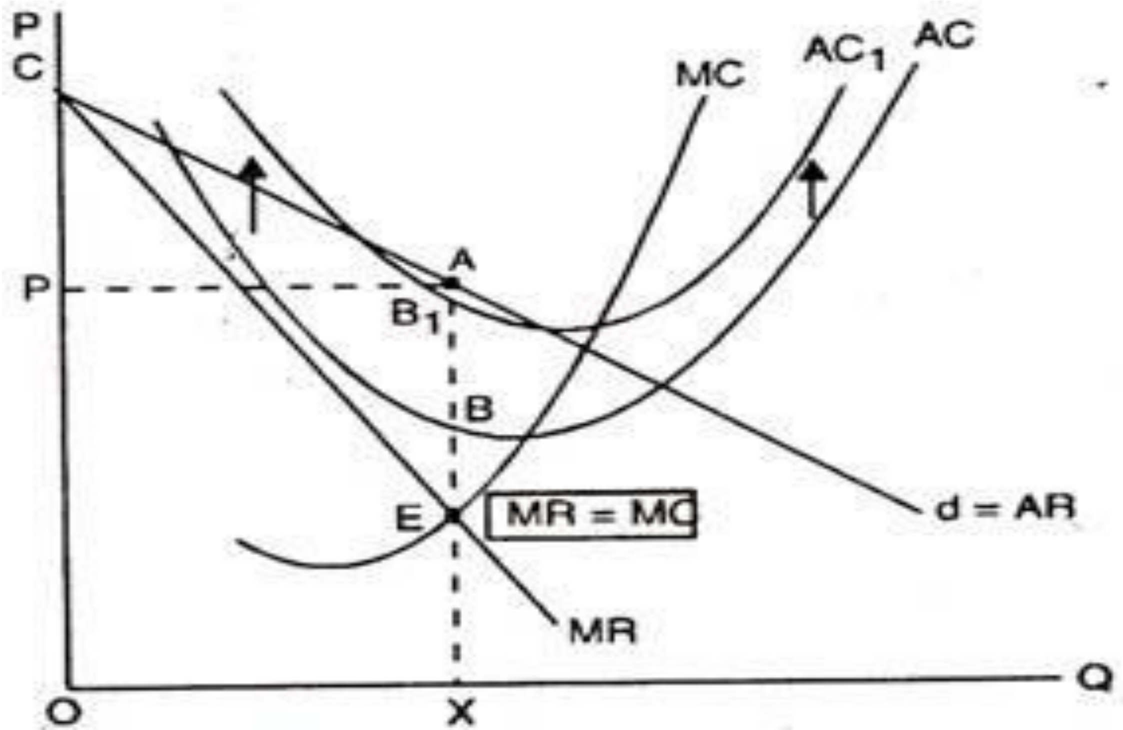
- 1. Output sold reduces

- 2. Price charged increases; consumers have to share the burden of the specific tax.

- 3. Profit reduces.

- 4. To what extent, the monopolist will shift the burden of a per unit tax to the consumer. It depends on the elasticity of his supply and demand for his product.

B- Imposition of Lump Sum Tax

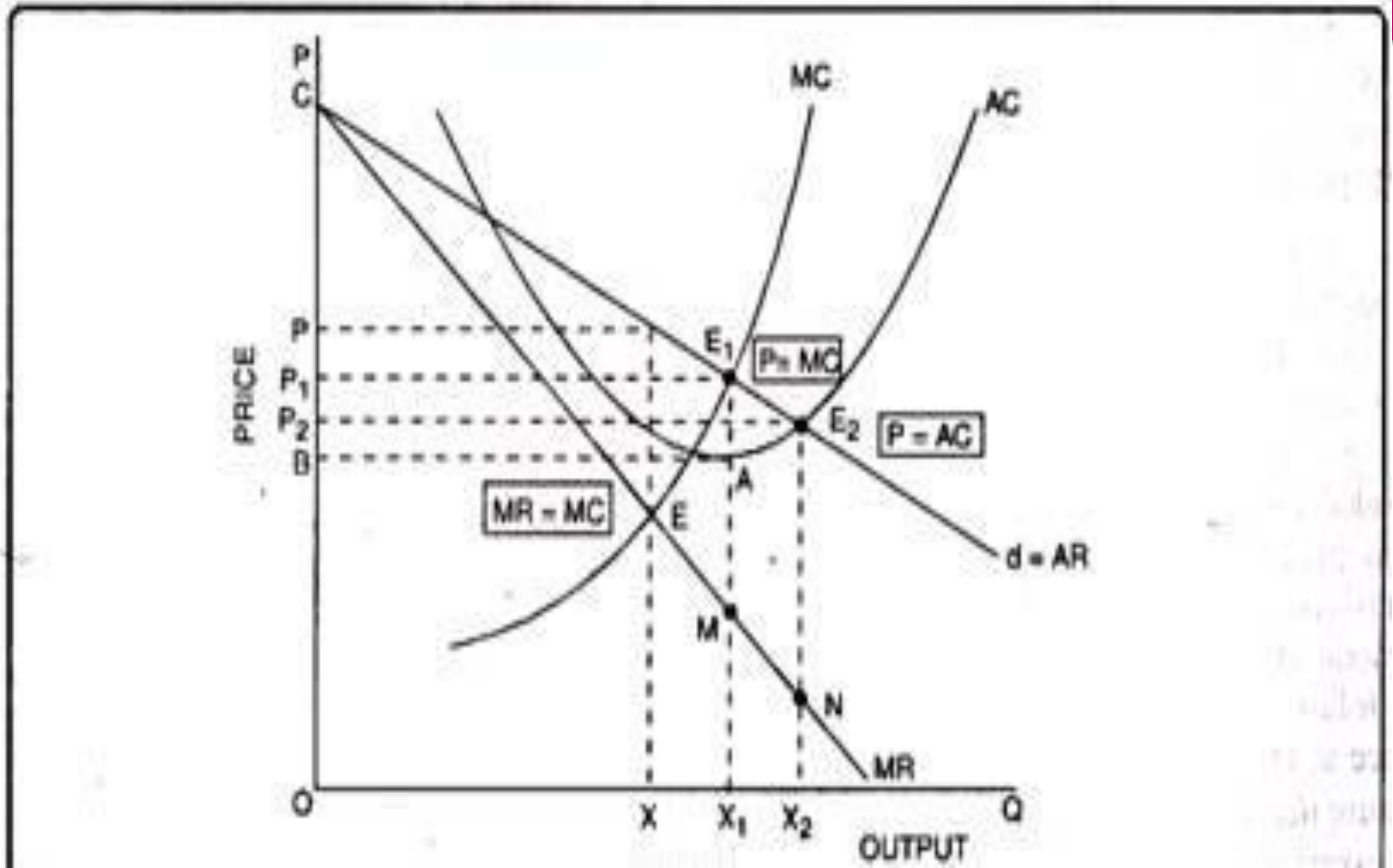
- Sometimes, the government levies a lump sum tax on monopolists. A tax such as a profit tax or license fee are imposed on a firm regardless of its level of output. It is treated as a fixed cost and hence, docs not enter the monopolist's MC.
- 

Effect of Lump Sum Tax

- (I) Output sold remains unchanged
- (ii) Price remains unchanged
- (iii) Profit reduces
- (iv) Incidence of a lump sum tax is completely on the sellers and the buyers will escape from the burden.

2- Marginal Cost Pricing or Price Regulation or Regulated Monopoly

- The term “public utilities” is applied to such essential services such as water supply, power supply, passenger transport facilities, communication facilities and railway facility. These services should be made available to the society at reasonable prices. Most public utility firms are natural monopolies and are also called as regulated monopolies.
- Government and public authorities run these monopolies directly or impose price ceilings, which are not too low from monopoly price. This saves the consumers from having to pay high monopoly prices. This limits monopoly power. The questions that arise are What should be the fair price of natural monopolies? Should it be equal to MC or AC? How can their prices be regulated?



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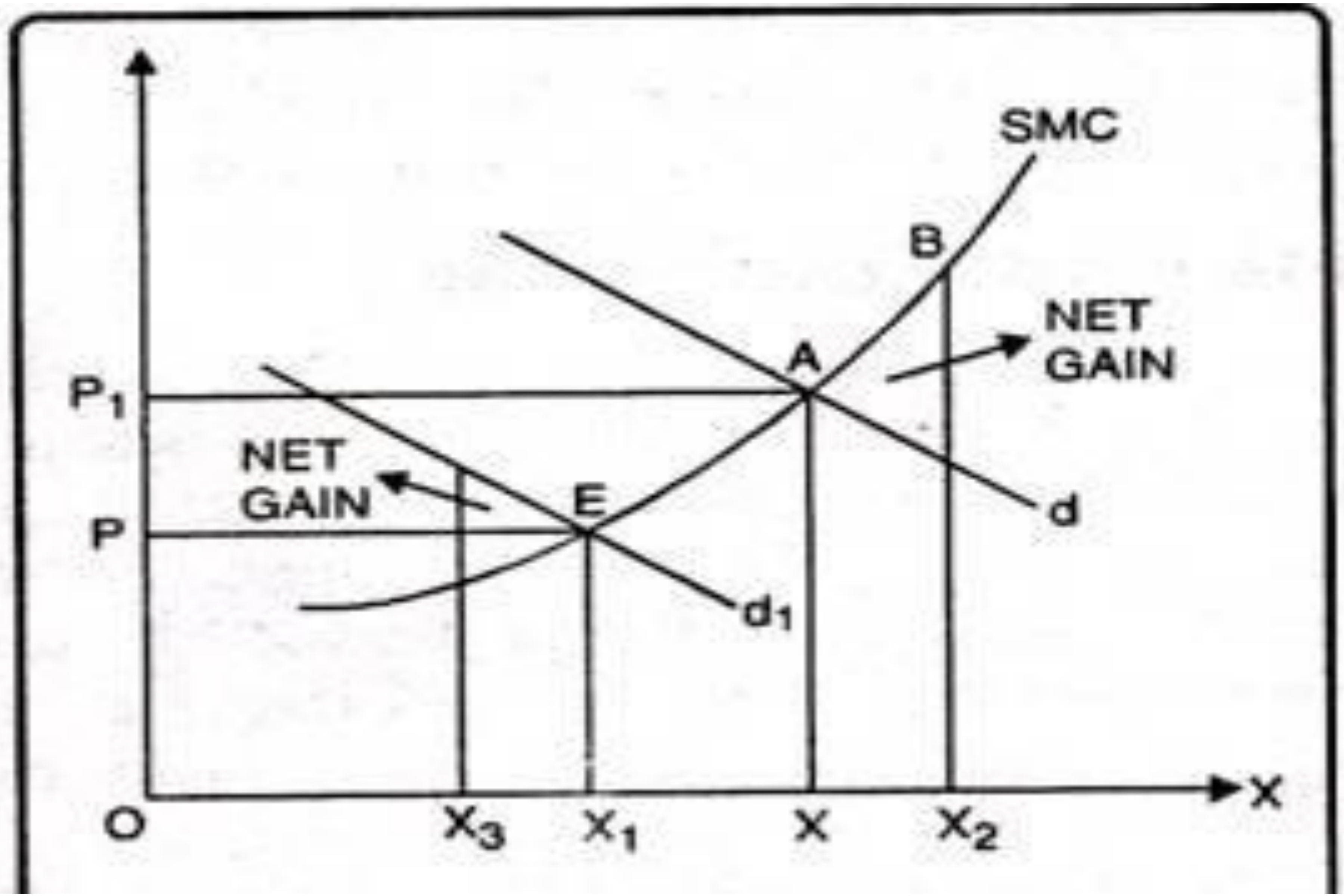
3- Peak Load Pricing

- This is a case of price discrimination peak and off-peak supplies at different prices. Some examples are, electricity has different demand curves at different times during the day. When demand is more, it is called peak period, when less the off-peak period. Hotels at hill stations have peak period in summer and off-peak period in monsoon. Demand for woollens is more in winter (peak period) and less in summer (off- peak period). The traffic rush on roads is more after office hours.
- Weekend rush to amusement parks is another example of peak period. Hence, whenever the demand for a good is not the same in the two time periods and the cost to produce also differs, it is beneficial for the monopolist to charge different prices in the two periods The cost is higher in peak period because resources are pushed much harder to produce more in peak period.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