Monopoly vs competitive firm (optimum)

① Graphs

Monopoly	Competitive firm
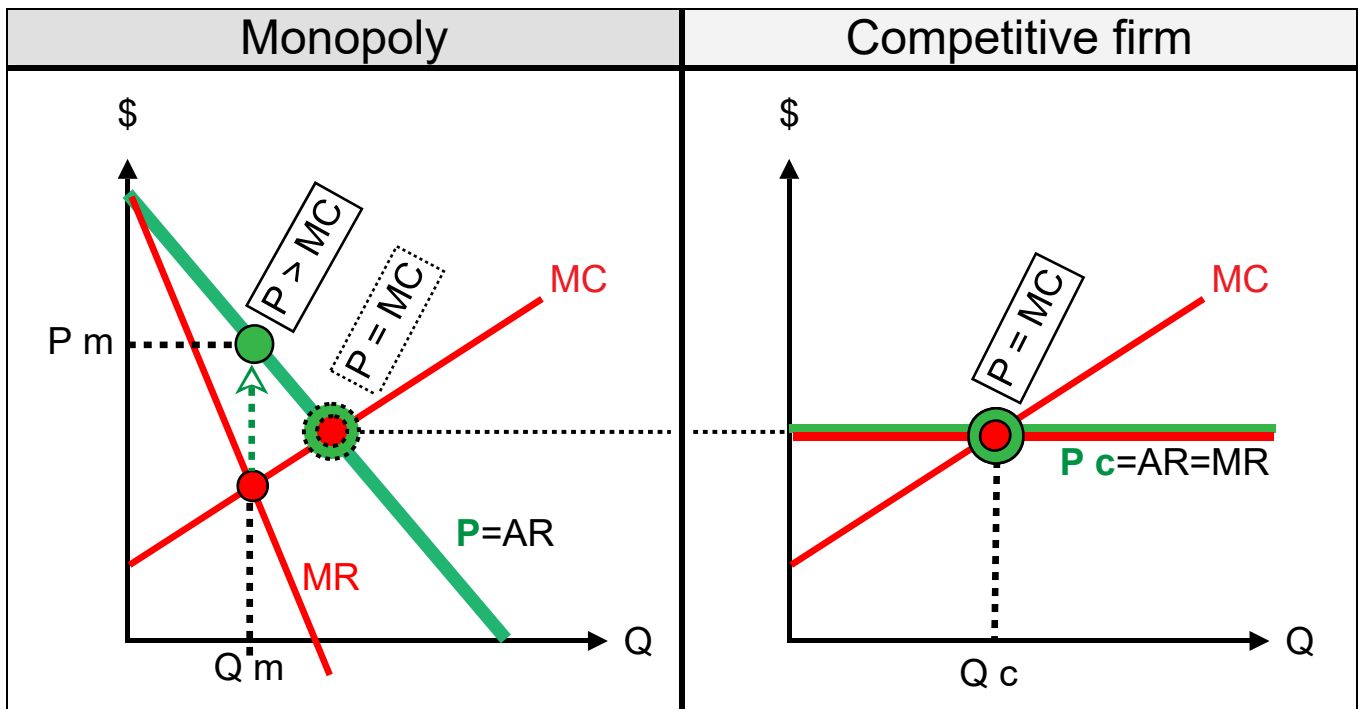
② How are the profit-optimal quantities and prices determined?

Monopoly	Competitive firm
• **MC = MR** → red dot • **P m > MC** → green dot	• **MC = MR** → red/green dot • **P c = MC** → red/green dot

③ Monopoly versus competitive firm

The quantity and the price are determined according to the same rules: First, the quantity is determined at the point MC = MR. Then one looks what price is possible at this quantity. It can be seen that the monopoly determines a higher price and a lower quantity than the competitive firm. In other words, if the monopoly behaved like a competitve firma (P = MC → red/green dot on P=AR), this would result in a higher quantity and a lower price. Can you show it in the graph on the left?

Abbreviations:

P = Price
MC = Marginal cost
AR = Average revenue
Q m = Quantity monopoly
P c = Price competitive firm

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MR = Marginal revenue
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