MONOPOLY

WHAT IT IS:

- A monopoly is a market environment where there is only one provider of a certain economic good or service.

HOW IT WORKS (EXAMPLE):

For a true monopoly to be in effect, each of the following characteristics would typically be evident:

1. A sole provider of a viable product or service.
2. A lack of any close substitutes for consumers to choose from.
3. High barriers to dissuade the entry of any potential competitors.

WHY IT MATTERS:

In a free enterprise system, prices are largely determined by the competing market forces of supply and demand. Buyers and sellers both exert an influence over prices, and this eventually results in a state of equilibrium.

However, in a monopolistic environment, a single company or provider has absolute control over the supply that is released into the market, giving that particular provider the ability to dictate prices. In the absence of any competition, the lone seller is free to keep prices artificially high, without fear of being undercut by another provider. Obviously, such a scenario is usually highly unfavorable for consumers, as it gives them no recourse to seek alternatives that might force prices lower.


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