

## THE ADVANTAGES AND DISADVANTAGES OF MONOPOLIES IN THE ECONOMY

Rafiqov Abror Baxtiyor o'g'li

University of Business and Science iqtisod yo'nalishi

3-kurs IQK-22-01 gurux talabasi

### Annotation:

The article deals with significant information about the advantages and disadvantages of monopolies in the economy. On the other hand, basic types of monopoly and main reasons of importance of understanding monopoly markets were discussed.

**Keywords:** monopoly market, market structure, Natural Monopolies, Legal Monopolies, Public Monopolies, Economic impact, Consumer welfare, Public policy.

Monopoly is a term used to describe a market structure in which a single firm or group of firms controls the vast majority of the market share. In a monopoly market, there are no close substitutes for the product or service being offered, and the monopolist has the power to control prices and limit output. A monopoly is a market structure in which a single firm or group of firms controls the vast majority of the market share for a particular product or service. In a monopoly market, there are no close substitutes for the product or service being offered, and the monopolist has the power to control prices and limit output[1]. This means that the monopolist is the only seller in the market and has no competition. As a result, consumers have no choice but to purchase the goods or services from the monopolist at prices determined by the monopolist. Three main types of monopolies exist.

### 1. Natural Monopolies

A natural monopoly is a monopoly that exists either because the first seller to the market controls a limited key resource or because of significant economies of scale and other types of naturally occurring high barriers to entry. A natural monopoly will form in markets if a single firm can serve customers at a lower cost of production than multiple firms trying to do the same.

### 2. Legal Monopolies

A legal monopoly is a monopoly that exists because of laws and regulations restrict competition.



Monopolists whose products are protected by intellectual property rights, such as trademarks, patents, and copyrights are good examples of legal monopolies. Legal monopolies can also arise if the costs of complying with government regulations are high. These high regulatory costs create a barrier to entry, which makes it difficult for newer, smaller firms to compete.

### 3. Public Monopolies

A public monopoly is a monopoly run or protected by the government. Government-granted monopolies exist to provide equitable access to necessary goods and services. The postal system, rail service, and utilities like gas, water, and electricity usually operate as public monopoly firms.

Understanding monopoly markets is important for several reasons[2]:

1. **Economic impact:** Monopoly markets can have significant negative effects on consumers and the economy, such as higher prices, reduced choice, and reduced innovation. Understanding how these effects are created can help policymakers and regulators to develop effective strategies to mitigate them.
2. **Competition:** Monopoly markets lack competition and the monopolist has the power to control prices and limit output, which can lead to reduced efficiency and productivity, and a negative impact on economic growth. Understanding how to promote competition in these markets can help to improve economic performance.
3. **Consumer welfare:** Monopoly markets can lead to reduced choice and higher prices for consumers, which can have a negative impact on their welfare. Understanding how these effects are created can help policymakers and regulators to develop strategies to protect consumer welfare
4. **Public policy:** Monopoly markets can have a significant impact on public policy, particularly in areas such as antitrust and regulation. Understanding the nature of these markets and their effects on the economy and consumers is essential for formulating effective public policy.
5. **Business management:** Business managers may encounter monopoly markets as a part of their business environment, it's important for them to understand the dynamics of such markets to strategize and make informed decisions.

There are also a number of advantages and disadvantages of a monopolistic market structure which impacts both the buyer as well as the seller along with the whole market and economy related thereto. First of all, we will analyze advantages of monopoly[3].

- **Stability of prices-** The prices in a normal competitive market, are set by the forces of competition as well as the market forces of demand and supply. In a



monopoly on the other hand, since there is no competition, there being only one seller of a good in the market, the prices are determined by the seller themselves as per their wishes and whenever they would like to change the price. As a result, the prices of a monopoly remain much stable as compared to a competitive market.

- **Source of revenue-** Despite the fact that monopolies are often a source of restricted competition and entry of other sellers in the market, they are still encouraged because monopolies can earn good amounts of profits, being the only sellers in the markets and hence, they become good sources of revenue for the government which benefits the society as a whole.
- **Profits-** As already discussed, a monopoly refers to a single seller operating and selling a good in the market of a large number of buyers. Since there are no other sellers of such good in the market, the entire demand of such good is enjoyed by the one seller and as a result, monopolies become able to make a considerably massive amount of profits through their sales in the markets.
- **Source of essential public utilities-** Monopolies are often state controlled and run companies that help in producing and making available goods that are essential and important for public utilities that operate on large scale to provide the essential goods and services to the people in the community. There are many monopolies in a state that are government owned and controlled such as those providing public transport facilities, water and electricity resources, etc.
- **Potential to face depression-** The nature of a monopoly is such that being the only seller of a particular good, the company would always gain the demand of the consumers solely, which means that even in situations like economic depressions, a monopoly can survive because of the demand received by the consumers in the market.

There are some Disadvantages of monopoly. For example:

- **Exploitation of consumers-** Since there is only one seller in the market in a monopoly, the entire power of providing the good, at a certain price or at a certain quality remains in the hands of the seller and no power lies in the hands of the consumers. Also, there are no market and competitive forces to keep the goods of a monopoly in check in terms of price and quality. Hence, such a market structure can be exploitative for the consumers in the market.
- **Price discrimination-** Since Monopolies decide their own prices in the markets, with no competition to worry about, it has been seen often that the seller tends to charge different prices from different sets of consumers, causing a discrimination in the prices.



- **Quality of goods-** Since there is no competition in such a market, a monopoly can often provide low or inferior quality of goods to save their costs of production and make more profits, thereby causing a loss to the consumers.
- **Allocation of resources-** The allocation of resources in a monopoly is often biased and distorted because in the production of such goods, the resources can often not be acquired by small firms or sellers or at least by a significant number of firms in the market, providing a benefit to the seller to be able to control and restrict the supply as well as competition in the markets.
- **Unfair trade practices-** It is well-known that a monopolistic market often is a barrier to new entrants in the markets. In a monopoly, in order to keep enjoying the various benefits of being the only seller in the market, and to keep making the massive profits, monopolies often engage into unfair trade practices to ensure that competitors in the market are ousted and do not impact their business in the markets[4].

To sum up all given facts above it should be noted that overall, understanding monopoly markets is important for understanding how markets function, the impact of market structure on the economy and consumers, and the development of effective public policy and business strategies. As we see above, there are different types of monopolies, each with unique characteristics and implications for the market. While some monopolies may arise due to natural reasons, others are created through legal barriers or technological advantages. It is important to understand the different types of monopolies and their effects on the market to make informed economic decisions.

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