



Monopoly behaviour of the DeBeers Diamond Company

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Abstract: Monopoly is the dominating one firm in the market, there is no competitors or no other substitute firms in the market. Monopoly has an ability to set price on his own product. Many researches have been analysed the efficiency of monopoly and its effects to consumer behaviour. The inefficiency of Monopoly is proved by price is above the marginal cost and it causes the shortage of product in the market. Thus, monopolist produces and sells the limited quantity of product and it is below the rank the social efficient level. This research has been conducted on the monopoly behaviour of DeBeers Diamond Company. In the Introduction section numerous papers on the efficiency of a monopolistic market have been revived and analysed. In the body part natural barriers to entry, unfair competition of computer software markets, monopoly pricing and social cost of diamond market have been discussed, and in final part how social cost occurs the government intervention to the market have been demonstrated.

Relevance of the topic.

Many research papers have been analysed the efficiency of monopoly and some of them found it is efficient and half of them are not agree with them. Numerous arguments have been discussed about social cost of monopoly over years, however Harberger studied the social cost and indicated it as a welfare loss in 1954.

The government's giving a permission to one firm to be a monopoly it is called natural monopoly. It brings great profit to both government and consumers. For example, UzRailways Company Uzbekistan adds its contribution to government development gets



consumers' satisfaction at the same time. Another example of natural monopoly is USA Network Solutions company which supports the database of all .com, .net, and .org Internet addresses, because such data need to be centralized and comprehensive (Pindyck&Rubinfeld,2015).The copyright and patents are servicing to government to create natural monopoly. With creating a new type of drug the firm gaining the patent and over many years, the government support the firm not entering other entrant to market. The advantage of government patents and copyrights is improved incentive for creative activity (Pindyck&Rubinfeld, 2015)

Monopoly has less elastic demand curve. The firm's elasticity of demand is determined by three factors:

1. The market demand elasticity. The potential for monopoly power is limited by the elasticity of market demand.
2. The market firms quantity. If there are many firms, no one can change the price notably.
3. The firms 'cooperation. The negotiation of firms will help to control price in the market.

No one can raise or decrease the price (Pindyck&Rubinfeld, 2015).

The Example of market elasticity of demand has been explained in Soft Drinks Company. According to the studies market elasticity of demand is -0.8 and -1.0and it means that if *all* soft drink producers increased the prices of all of their brands by 1 percent, the quantity of soft drinks demanded would fall by 0.8 to 1.0 percent (Pindyck&Rubinfeld, 2015).

Monopolistic power effects the price to exceed marginal cost, so the price is higher than the quantities manufactured. That is not Pareto efficient; the firms get profit but the consumer get harm (Pindick&Rubinfeld, 2015)

According to findings of Gumus some factors effect to the relative size of social cost of monopoly:

- ✓ Behaviour of regulating authority
- ✓ Relative size of rent protecting activities
- ✓ Relative size of rent defending activities



- ✓ Degree of economic development of the economy
- ✓ Degree of differentiation of price from marginal cost
- ✓ Relative size of monopolized industry in the economy
- ✓ Price elasticity of demand in the monopoly industries
- ✓ Relative size of consumer surplus defending activities (cited from Gumus, 2006).

On experimental grounds, the evaluated social expenses of imposing business model has been viewed as low because of specialized and estimation troubles to snatch every single pertinent factor in to the investigations (Gumus, 2006).

In the figure below the social cost of monopoly is analysed: because of monopoly increases, the price from competitive market price deadweight loss was occurred and this leads to consumer product shortage for monopolist the resource surplus. Consumers lose A+B and producer gains A-C. The Deadweight loss is B+C (Pindyck&Rubinfeld, 2015).

Conclusion

For increasing country economy, the government braces and secures monopolists despite of social cost of market(Pindyck&Rubinfeld, 2015). Practically all creating nations will in general control the businesses that produce basic products, specifically power, water supply, and a few pieces of agribusiness. Governments do as such by making imposing business models and securing them through tax breaks and sponsorships. Through keeping costs lower, for lower and middle class individuals, government need to use these approaches particularly in creating nations. On the other hand, government secures a few ventures to accomplish long haul objective of upper hand in worldwide market by leaving social damage of more significant expenses as negative externality(Varian, 2010).

It is recommended that specific businesses need insurance from government against rivalry to keep costs low, while some kind of ventures need to open ways to contenders to achieve previously mentioned target.

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