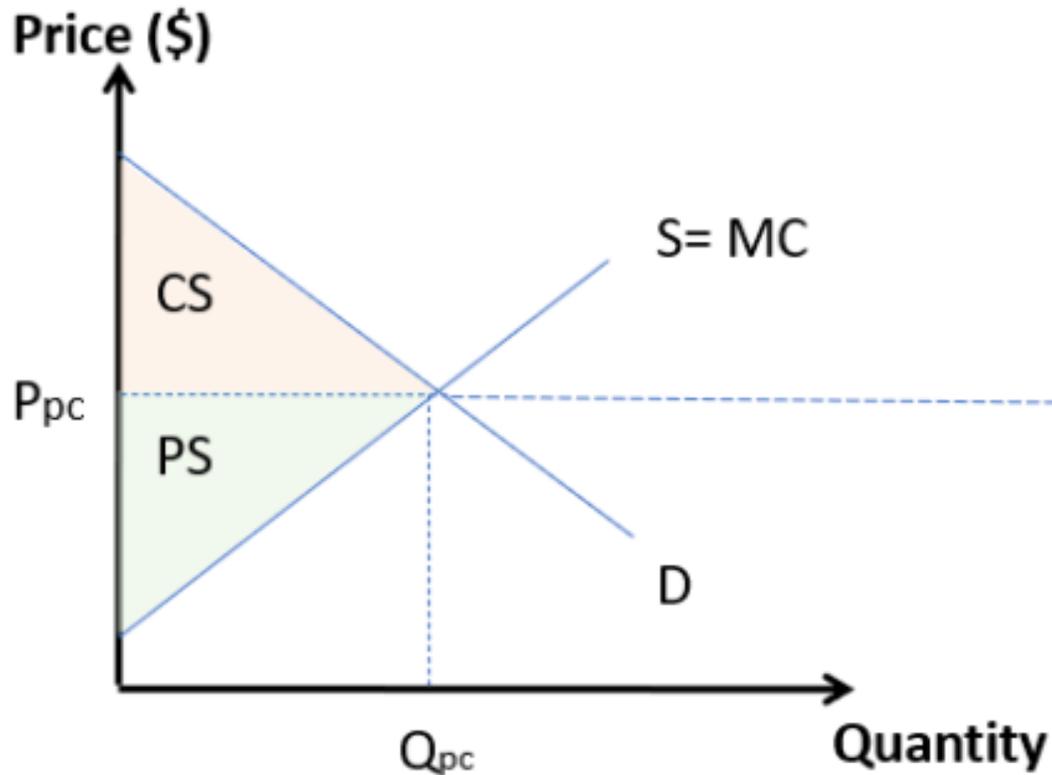
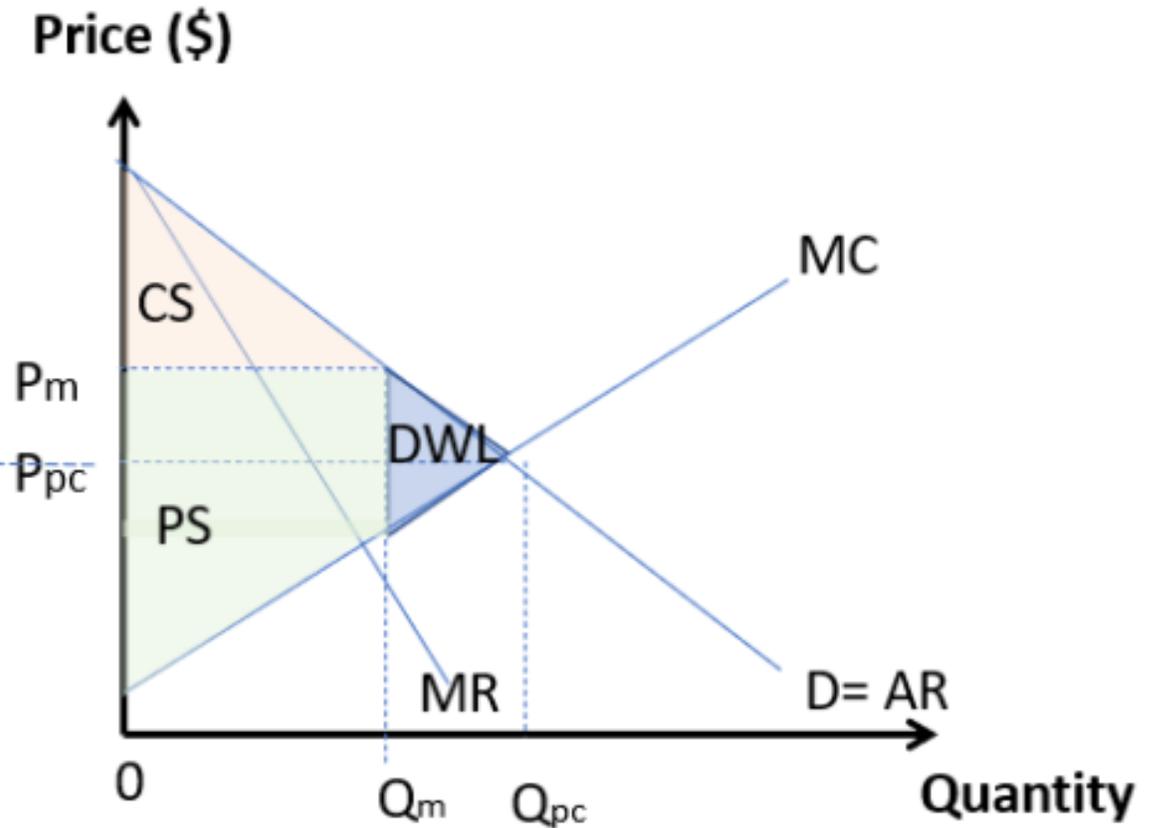


WEALTH LOSS IN MONOPOLIES

Perfectly Competitive Industry



Pure Monopoly



Wealth in an economy is reflected in the CS Consumer Surplus (= consumer wealth) and the PS Producer Surplus (supplier wealth).

The TW Total Wealth is the sum of CS and PS.

In perfect competition, the supplier “takes” the market price ($D = S$), the P and Q in perfect competition result in an equilibrium where the sum of PS and CS is at its maximum. This also means that the wealth in an economy is maximized.

The scenario in a monopoly is different...

The monopolist is a price-setter or price-maker.

The P in a monopoly is higher, the Q supplied is lower.

Therefore we see a higher PS and a smaller CS .

The monopoly profit is exceptionally high since there is no competition.

Result:

PART OF THE WEALTH IN THE ECONOMY IS LOST:

Dead Weight Loss (DWL).