The Basics of Monopoly
The Board Game

Monopoly is an economic concept and it is also the name of a famous board game first produced by Parker Brothers in 1935. The goal of this exercise is to determine whether or not the word “Monopoly” is a good name for this board game. The definition of monopoly and its characteristics are listed below. For each one, explain whether you think the board game fits that description or not. (If you have never played *Monopoly*, or if you cannot remember exactly how the game is played, the directions are summarized below.)
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1) One Seller
2) No Substitutes
3) High Barriers to Entry
4) Control Over Price
5) Types of Monopoly (Geographic, Technological, Legal, and Natural)
6) Do you think “Monopoly” is a good name for this board game? Why or why not?
How to Play Monopoly

There are usually 2 - 4 players. Each player starts with the same amount of money and a game piece on the “GO” square. Each player takes a turn rolling the dice and moves his/her piece that many spaces. If the player lands on a property (marked by the colored tiles), he/she may purchase that property. If the player lands on a tile that is not a property, he/she follows the directions for what to do on that tile. The four railroads are treated like properties and the two utility squares (Electric Company and Water Works) can also be purchased. Any time a player lands on a property he/she does not own, he/she must pay the indicated rent to the owner. If a player obtains possession of all the properties of a single color, he/she has a “monopoly.” Once a player obtains a monopoly, he/she may purchase houses or hotels to place on the properties, which makes the rents much more expensive. The goal of the game is to make the other players go bankrupt. A player wins when he/she is the only player left with any money.
“Monopoly” Learning Targets

Knowledge 3  
Understand the definition and characteristics of a market that is in monopoly.

Reasoning 4  
Describe reasons for and against the regulation of monopolies.
Characteristics of Monopoly

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   Microsoft owns over 95% of the operating system market, but it does have competition from Mac and Linux operating systems.
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2) No Substitutes
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The National Football League (NFL) has no close substitutes. Yes, there are other similar leagues, but none that compare to the NFL.
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A barrier to having competing electrical companies is that cities are not willing to have more than one set of power lines.
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4) Control Over Price
   A true monopolist can change price and quantity to maximize profits.

De Beers, a company that controls most of the world’s supply of diamonds, artificially increases price by limiting its output.
Barriers to Entry

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4) **Economies of Scale**
   A monopoly can exist if one company has a cost advantage over new firms.

The enormous upfront costs of power companies makes it very difficult to start a competing business.
Types of Monopoly

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A single gas station along a lonely road in the desert is an example of a geographic monopoly.
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4) Natural Monopoly
   Exist when 1 company can produce items cheaper than 2 competing firms.

If Average Total Cost (ATC) is still decreasing at the output level, the firm is still in the economy of scale portion of the graph.
5 Reasons for Failure:

1. Inadequate Competition
2. Inadequate Information – if the knowledge is important to buyers and sellers but is difficult to obtain
3. Resource Immobility – factors of production do not move to markets where returns are the highest
4. Public Goods – products that are collectively consumed by everyone
5. Externalities – unintended side effect that either benefits or harms a third party not involved.
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*Doesn’t matter if they are positive or negative:* They are considered market failures, because their costs and benefits are not reflected in the market prices that buyers and sellers pay.
The Role of Government

- The government exercises its power to maintain competition within markets.
- Two ways that government can maintain competitive markets:
  1. Prohibiting market structures that are not competitive.
  2. Regulating markets where full competition is not possible.
Antitrust Legislation

1. **Trust**: illegal combination of corporations or companies organized to hinder competition

2. **Price Discrimination**: the practice of selling the same product to different consumers at different prices

3. **Cease and Desist Order**: ruling requiring a company to stop an unfair business practice that reduces or limits competition

4. **Cartel**: a formal illegal "agreement" among competing firms to fix prices, marketing, and production.
Anti-Monopoly Legislation

- **Sherman Antitrust Act 1890** – Outlawed all contracts to stop the growth of trusts and monopolies

- **Clayton Antitrust Act 1914** – Strengthened the Sherman Act by outlawing price discrimination


- **Robinson-Patman Act 1936** – Made it where everyone got the same rebates and discounts
Is This a Monopoly?

DIRECTIONS
Several firms have been listed below. First, determine which market that firm is in. Then, use the characteristics of monopoly to decide whether each firm is a monopolist or not. There are questions for each characteristic of monopoly. Finally, if the firm is a monopolist, decide whether it is a geographic, technological, legal, or natural monopoly.

(a) Complete this version if you feel you need the teacher to work with you on this topic.

(b) Complete this version if you feel you have a fairly good understanding of this topic.

(c) Complete this version if you feel this topic is easy.
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