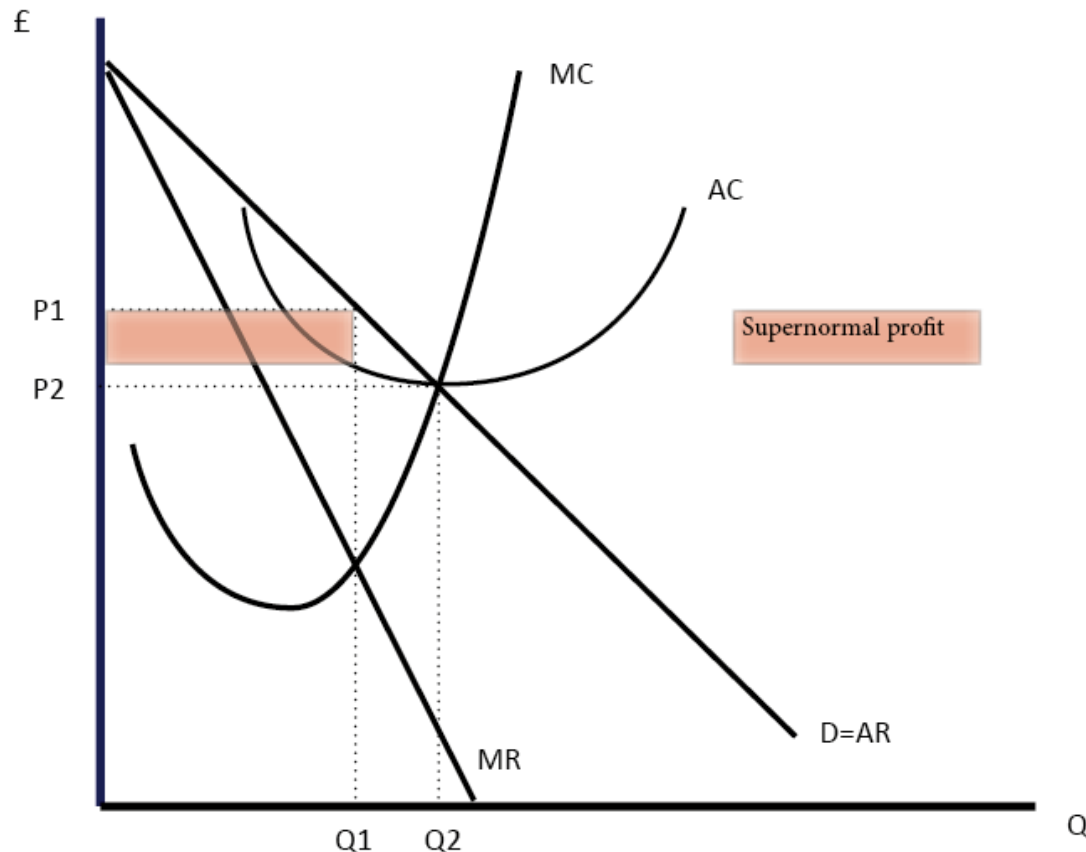


Monopoly

- A pure monopoly occurs when there is only one firm in the industry.
- In the UK, a firm is said to have monopoly power if it has more than 25% of the market share.
- A monopoly will have barriers to entry.

Diagram of monopoly



- A monopolist maximises profit, where $MR = MC$.
- Therefore, it sets price = P1 and quantity = Q1.
- Firm makes supernormal profit = $(AR - AC) \times Q$
- If the market was competitive, output would be Q2 and price P2 (normal profit).

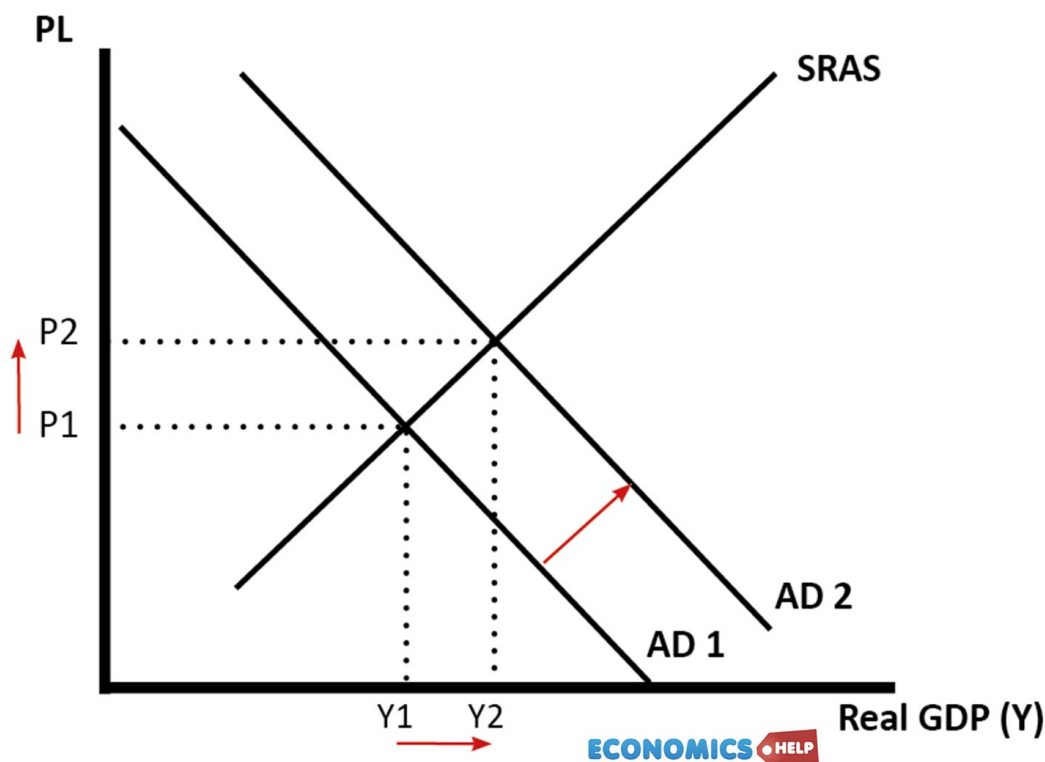
Disadvantages of monopoly

- **Allocative inefficiency**, because in monopoly, $P > MC$.
- **Productive inefficient**, because output is not at lowest point on AC curve.
- **X-inefficient**, because a monopolist has fewer incentives to cut costs; therefore AC curve is higher than it could be.
- **Less choice for consumers.**
- **Quality of product** could be worse, because there are fewer incentives for a monopolist to develop new products.

Policies to reduce unemployment

1. Demand-side policies

(Best for cyclical / demand-deficient unemployment)



Expansionary fiscal policy – increase government spending or cutting taxes can boost AD. Lower income tax means consumers spend more, and AD rises. As AD rises, real output increases and firms need to employ more workers, therefore, reducing cyclical unemployment

Expansionary monetary policy – lower interest rates, reduce the cost of borrowing, encourage firms to borrow. This leads to more investment and economic growth, as real GDP rises to Y_2 , firms need more workers.

2. Supply-side policies

(Best for structural unemployment)

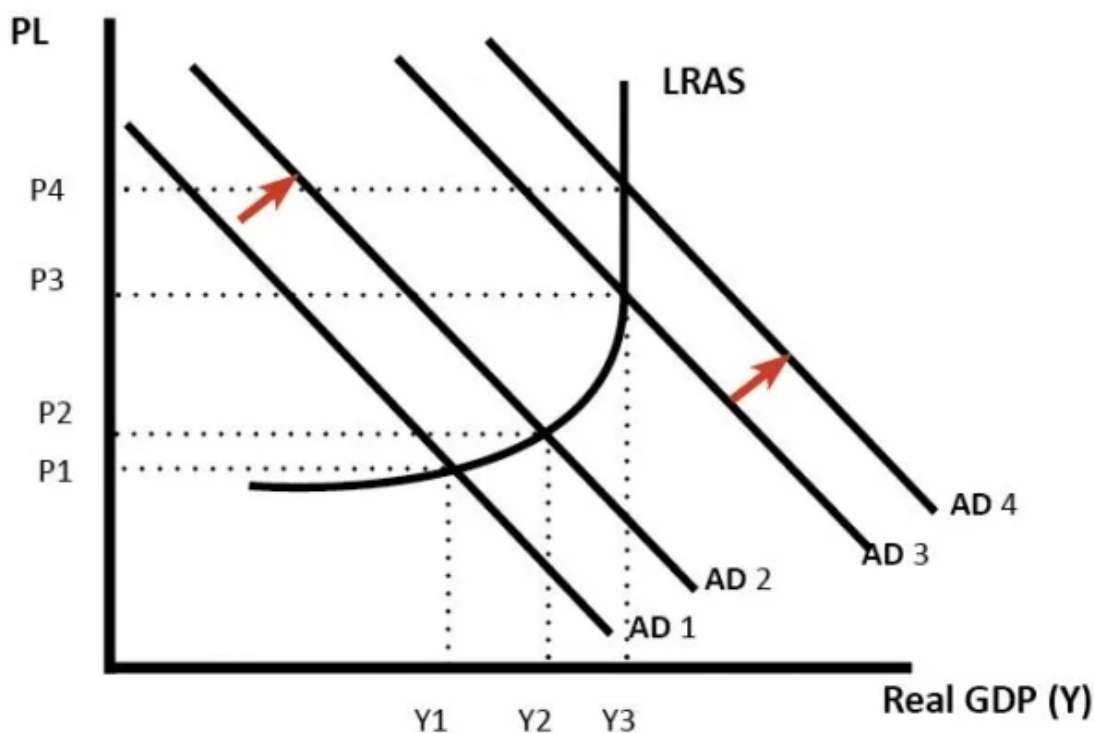
Education and training programmes – improve skills and employability. If a worker can't get a job due to lack of skills, retraining gives them the opportunity to find work in new expanding industries.

Improving labour mobility – housing policies, transport, information on vacancies. This can help reduce geographical unemployment. For example, if jobs are available in a city, cheaper renting can make it easier for the unemployed to move there.

Evaluation of policies to reduce unemployment

Demand side policies. Evaluation

- **May cause** inflation if AD grows faster than AS
- **Time lags** (especially fiscal policy) Even cutting interest rates has a time delay, e.g. many people have 2 year fixed mortgage and so will not benefit from lower interest rates for 2 years.
- **Ineffective against** structural unemployment. The problem with structural unemployment is not lack of demand, but mismatches in skills and labour market failure; this needs addressing directly
- **Higher debt.** Expansionary fiscal policy – tax cuts, higher spending will cause higher government debt and may cause crowding out of the private sector – especially if the economy is close to full capacity



Fiscal and monetary policy are most effective, if the economy is at Y1 (significant spare capacity). If the economy is at Y3, supply side policies will be needed.

Reducing minimum wage evaluation

- **Lower productivity** While firms' labour costs may fall, lower wages can reduce worker morale and productivity, limiting the expected increase in employment.
- **Income inequality** A lower minimum wage may increase employment but worsen income inequality and in-work poverty, creating wider social costs.