Chapter 8: Monopoly, Oligopoly, and Monopolistic Competition

- **Price setter-** a firm with at least some latitude to set its own price
- **Pure monopoly-** the only supplier of a unique product with no close substitutes
- **Monopolistic competition-** an industry structure in which a large number of firms produce slightly differentiated products that are reasonably close substitutes for one another
- **Oligopoly-** an industry structure in which a small number of large firms produce products that are either close or perfect substitutes
- **Market power-** a firm's ability to raise the price of a good without losing all its sales; five sources of market power are exclusive control over important inputs, patents and copyrights, government licenses or franchises, economies of scale, and network economies
- **Constant returns to scale-** a production process is said to have constant returns to scale if, when all inputs are changed by a given proportion, output changes by the same proportion
- **Increasing returns to scale (or economies of scale)-** a production process is said to have increasing returns to scale if, when all inputs are changed by a given proportion, output changes by more than that proportion
- **Natural monopoly-** a monopoly that results from economies of scale (increasing returns to scale)
- **Marginal revenue-** the change in a firm's total revenue that results from a one-unit change in output

- **Price discrimination-** the practice of changing different buyers different prices for essentially the same good or service
- **Perfectly discriminating monopolist-** a firm that charges each buyer exactly his or her reservation price
- **Hurdle method of price discrimination-** the practice by which a seller offers a discount to all buyers who overcome some obstacle
- **Perfect hurdle-** a threshold that completely segregates buyers whose reservation prices lie above it from others whose reservation prices lie below it, imposing no cost on those who jump the hurdle
- **Cost plus regulation-** a method of regulation under which the regulated firm is permitted to charge prices that cover explicit costs of production plus a markup to cover the opportunity cost of resources provided by the firm's owners