



Monopoly or Competition: Which one is better?

Student: Gatish Singh

Class: Senior 3

Assistant: Helen Nepomnyashchaya

International School of Tomorrow
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OUTLINE

- I. Introduction
- II. Monopoly
 - A. Definition and characteristics of a monopoly
 - B. Advantages of a monopoly
 - C. Disadvantages of a monopoly
- III. Competition
 - A. Definition and characteristics of competition
 - B. Advantages of competition
 - 1. Increased consumer choice and variety of products
 - 2. Lower prices due to competitive pricing strategies
 - 3. Incentive for innovation and improvement in product quality
 - C. Disadvantages of competition
 - 1. Potential for market saturation and oversupply
 - 2. Possibility of predatory pricing and unethical practices
 - 3. Challenges for smaller businesses to compete with larger corporations
- IV. Competition or Monopoly: which is better?
- V. Conclusion

INTRODUCTION

Much debate has existed in proving which is better, a monopoly market or a competitive market. Generally, people suppose that monopoly is harmful for economy of the country and competition, on the contrary, is beneficial.

And then we see the saying of Peter Thiel, a German-American billionaire entrepreneur, venture capitalist, and political activist, who said, "Monopoly is the condition of every successful business".

Having these two contradictory opinions, I decided to do a research and come to my own conclusion what is better.

To reach my aim I set several goals:

- to define monopoly and competition
- to research advantages of monopoly and competition
- to research disadvantages of monopoly and competition □to compare monopolistic and competitive companies.

Monopoly

A. Definition and characteristics of a monopoly

A **monopoly**, as described by Irving Fisher, is a market with the "absence of competition", creating a situation where a specific person or enterprise is the only supplier of a particular thing. Monopolies are thus characterized by a lack of economic competition to produce the good or service, a lack of viable substitute goods, and the possibility of a high monopoly price well above the seller's marginal cost that leads to a high monopoly profit.

A monopolistic market is a market structure with the characteristics of a pure monopoly.

Monopolies may be naturally occurring due to limited competition because the industry is resource intensive and requires substantial costs to operate (e.g., certain railroad systems).

A monopoly is defined by several distinct characteristics:

1. **Sole Seller:** At the heart of a monopoly is a single seller or producer that dominates the market. This entity is the exclusive source for a particular product or service.
2. **No Close Substitutes:** In a monopoly, there are no viable substitutes for the product or service being offered. Consumers are compelled to buy exclusively from the monopolist.
3. **Price Maker:** Unlike in competitive markets where prices are determined by supply and demand forces, a monopolist has significant control over pricing. They are price makers, setting prices to maximize their profits.
4. **Barriers to Entry:** Monopolies often emerge because of significant barriers that deter other firms from entering the

market. These barriers can include high capital requirements, patents, access to essential resources, and economies of scale.

5. **Profit Maximization:** Monopolists are profit-driven. They aim to maximize their profits, which can sometimes come at the expense of consumer welfare.

B. Advantages of a monopoly

1. **Profit Maximization:** Monopolies have the potential to generate substantial profits since they face minimal competition and can set prices higher than their production costs.
2. **Innovation and Research:** Monopoly firms often invest heavily in research and development to maintain their dominant position in the market. This has the potential to drive technological advancements and foster innovation.
3. **Economies of Scale:** Monopolies can achieve significant economies of scale, which means they can produce goods or services more efficiently and at lower costs than smaller competitors.
4. **Stability:** Monopolies are generally more stable than competitive markets because they do not face the constant threat of price wars or aggressive competition.

C. Disadvantages of a monopoly

1. **Higher Prices:** Monopolies can charge higher prices for their products or services since consumers have no alternative options. This leads to reduced consumer surplus and potentially unfair pricing.

2. **Reduced Choice:** Consumers have limited or no choice when dealing with a monopoly, which can result in a lack of variety and innovation in the market.
3. **Inefficiency:** Monopolies may not have the same incentives to operate efficiently as competitive firms do, as they face less pressure to cut costs or improve quality.
4. **Barriers to Entry:** Monopolies often maintain their dominance by creating significant barriers to entry for potential competitors. This can stifle innovation and limit market access for new businesses.
5. **Lack of Consumer Voice:** Since monopolies have no competitors, consumers have limited power to influence product quality or pricing through their purchasing decisions.
6. **Income Inequality:** Profits earned by monopolies can contribute to income inequality, as a significant portion of the wealth is concentrated in the hands of a few individuals or entities.
7. **Reduced Innovation:** While some monopolies innovate to maintain their position, others may become complacent and less inclined to invest in research and development.
8. **Political Influence:** Large monopolies may wield significant political influence, potentially leading to policies and regulations that favor their interests over those of consumers.

Competition

A. Definition and characteristics of competition



Competition is defined as “the activity or condition of striving to gain or win something by defeating or establishing superiority over others.” Competition arises whenever two or more parties strive for a common goal that cannot be shared, where one’s gain is the other’s loss.

There are several characteristics of competition that are important to understand:

1. **Multiple buyers and sellers:** In a competitive market, there are multiple buyers and sellers, each with their own unique products or services. This ensures that consumers have a variety of options to choose from and can make informed decisions based on their needs and preferences.
2. **Freedom of entry and exit:** In a competitive market, there are no barriers to entry or exit. This means that new businesses can enter the market and compete with existing ones, while inefficient or unprofitable businesses can exit the market. This ensures that only the most efficient and innovative businesses survive, leading to better products and services for consumers.
3. **Price determination by market forces:** In a competitive market, prices are determined by the forces of supply and demand. This means that businesses cannot arbitrarily set prices but must

respond to market conditions and competition. This ensures that prices are fair and reflect the true value of goods and services.

4. **Product differentiation:** In a competitive market, businesses differentiate their products or services from those of their competitors in order to attract customers. This can be through factors such as quality, features, branding, or customer service. Product differentiation encourages innovation and ensures that businesses are constantly striving to improve their offerings to stay ahead of their competitors.

5. **Information transparency:** In a competitive market, information about products, prices, and services is readily available to consumers. This allows consumers to make informed decisions and compare different options before making a purchase. Information transparency also promotes fair competition as businesses cannot deceive or mislead consumers about their products or services.

B. Advantages of competition

1. Increased consumer choice and variety of products

Competitions in the market promotes innovation, lower prices, customization, quality improvement, and international trade, all of which contribute to increased

consumer choice and variety of products. This benefits consumers by providing them with a wide range of options to choose from, allowing them to find the best products that meet their needs and preferences.

Competition in the market leads to increased consumer choice and variety of products in several ways:

1) Innovation: In a competitive market, businesses are constantly striving to differentiate their products from their competitors.

This leads to a constant stream of new and improved products

being introduced into the market, providing consumers with a wider range of options to choose from.

- 2) Lower prices: Competition also drives down prices as businesses compete to attract customers. This means that consumers can choose from a variety of products at different price points, allowing them to find the best value for their money.
- 3) Customization: With increased competition, businesses also offer more customized products and services to meet the unique needs of individual consumers. This allows consumers to have more control over the products they purchase, leading to a greater sense of satisfaction.
- 4) Quality improvement: In order to stay ahead of their competitors, businesses must constantly improve the quality of their products. This means that consumers have access to higher quality products, leading to better overall satisfaction.
- 5) International trade: Competition in the global market has also led to increased consumer choice and variety of products. With advancements in technology and transportation, consumers now have access to products from all over the world, providing them with even more options to choose from.

2. Lower prices due to competitive pricing strategies

Companies in a competitive market are always fighting for clients and attempting to differentiate themselves from the competition. They accomplish this, among other things, by lowering the cost of their goods. This is due to the fact that customers have the ability to select the company that provides the best value for their money when there are several vendors selling comparable goods. Businesses can use a variety of pricing strategies, like price matching, promotions, and discounts, to draw in customers. As a result, prices decline as

companies compete to undercut one another and obtain a competitive edge. Customers can now select the product that best suits their budget from a greater selection offered at various price points.

3. Incentive for innovation and improvement in product quality



Businesses in a competitive market are always searching for methods to outperform their rivals.

Increasing the caliber of their products and innovating are two ways they can achieve. This is evident in sectors like technology, where businesses are always releasing upgraded and new iterations of their goods. In the end, consumers gain from this competition and innovation drive since they have access to higher quality products. Companies are motivated to spend money on R&D to keep a step ahead of their rivals, which results in ongoing product development and improvement.

C. Disadvantages of competition

1. Potential for market saturation and oversupply

An example where there is an excess supply of products or services in a specific market could result in market saturation and oversupply, which would lower demand and reduce profitability for companies in that market.

This can happen when there are too many rivals providing comparable goods or services, creating an excess of supply over what customers are willing to pay.

When a market becomes saturated, it becomes increasingly difficult for new businesses to enter and compete, as the existing players already have a strong hold on the market. Oversupply, on the other hand, refers to a situation where there is an excess of supply in relation to demand. This can happen when businesses overestimate the demand for their products or services and produce more than what is needed. Oversupply can also occur when there is intense competition among businesses, leading to price wars and excess production in an attempt to gain market share.

2. Possibility of predatory pricing and unethical practices

Predatory pricing refers to a pricing strategy in which a company sets its prices very low in order to drive competitors out of the market and gain a dominant position. This can be seen as an unethical practice, as it harms competition and can lead to monopolistic behavior.

One of the main concerns with predatory pricing is that it can lead to reduced competition in the market, which can ultimately harm consumers. When a dominant company has eliminated its competitors through predatory pricing, it can then raise its prices without fear of losing customers. This can result in higher prices for consumers and reduced choices in the market. Predatory pricing can also lead to a decrease in innovation and quality of products or services. With less competition, companies may have less incentive to invest in research and development, resulting in a lack of new and improved offerings for consumers. Predatory pricing can also have negative effects on smaller businesses, as they may not have the resources to compete with larger companies that engage in this practice. This can result in the closure of small businesses and a concentration of power in the hands

of a few dominant players. Predatory pricing can also be seen as an unethical practice because it goes against fair competition principles. Companies that engage in this behavior are using their dominant position to unfairly eliminate competition, rather than competing on the basis of quality and price.

To prevent predatory pricing and unethical practices, governments can implement laws and regulations that promote fair competition and prevent monopolies. They can also enforce anti-trust laws to prevent companies from engaging in anti-competitive behavior. Businesses themselves should also adhere to ethical standards and compete fairly in the market.

3. Challenges for smaller businesses to compete with larger corporations

There are some reasons which make it hard for small businesses to be competitive.

1. Limited resources: Smaller businesses often have limited financial resources and may not have the same level of capital as larger corporations. This can make it difficult for them to invest in marketing, research and development, and other areas that are necessary for growth and competitiveness.
2. Brand recognition: Larger corporations often have well-established brands and a loyal customer base. This can make it challenging for smaller businesses to gain recognition and attract customers, especially if they are operating in the same industry as the larger corporation.
3. Economies of scale: Larger corporations can take advantage of economies of scale, which means they can produce goods or services at a lower cost due to their size and volume of production. This allows

them to offer lower prices, making it difficult for smaller businesses to compete on price.

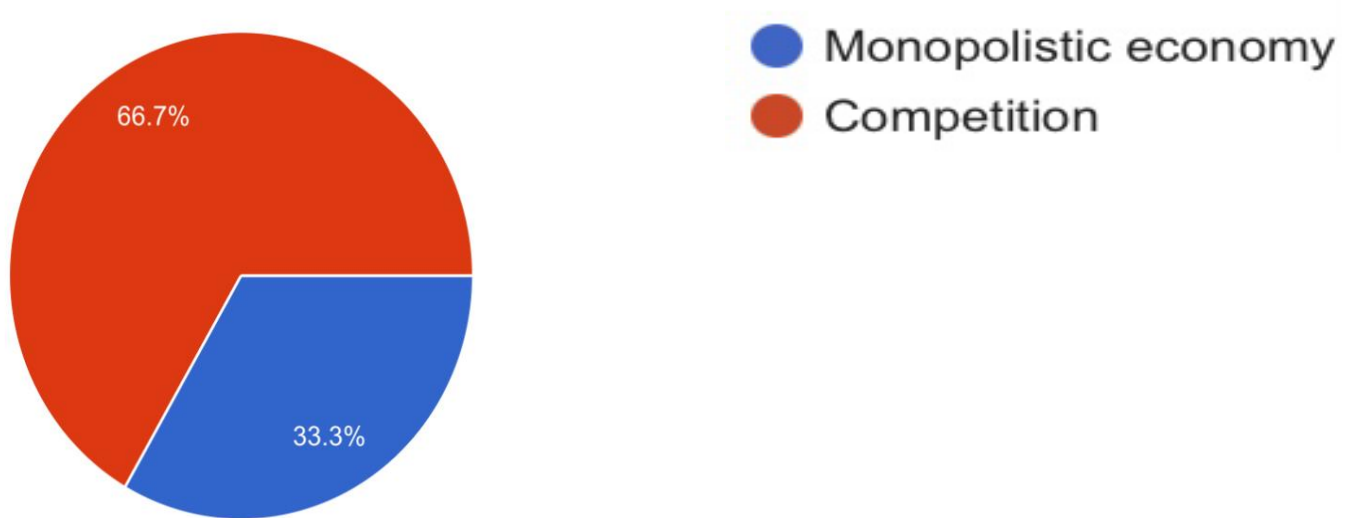
4. Access to distribution channels: Many larger corporations have established relationships with suppliers and distributors, giving them an advantage in terms of access to distribution channels. This can make it challenging for smaller businesses to get their products or services to market.
5. Limited bargaining power: Smaller businesses may have less bargaining power when negotiating with suppliers or customers. This can make it difficult for them to secure favorable terms and prices, putting them at a disadvantage compared to larger corporations.
6. Regulatory challenges: Smaller businesses may face more regulatory challenges and compliance costs compared to larger corporations. This can create a barrier to entry and make it harder for them to compete in the market.
7. Lack of expertise: Larger corporations often have access to a wider pool of talent and resources, including specialized expertise in areas such as marketing, technology, and finance. Smaller businesses may struggle to compete with this level of expertise and resources.
8. Limited access to funding: Smaller businesses may have difficulty accessing funding from banks or investors, especially if they do not have a strong track record or collateral. This can limit their ability to invest in growth and compete with larger corporations.

Competition or Monopoly: which is better

Businessmen talk a lot proving which is better, a monopoly market or a competitive market. Generally, a monopoly has gained a negative connotation because it is mostly harmful to the consumers while a competitive market has praised.

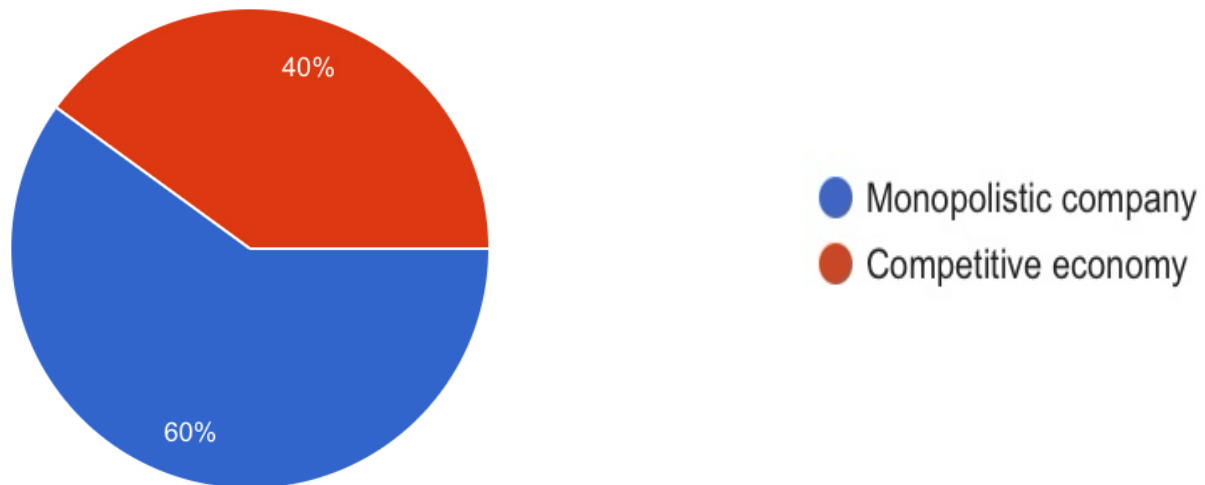
In my survey, I asked people some simple questions about monopoly and competition.

In question 1 I suggested people to imagine the situation: If you are consumer, would you like to be a part of monopolistic economic or competition?



The results show that when people are on the consumer's side, they prefer competition. Because people want to have a choice of things they are going to buy. By having competition in economics people can buy products with cheaper prices.

But then in question 2 we suggested them different situation: If you are a businessman would you prefer to be in a monopolistic company or work in competitive economy?

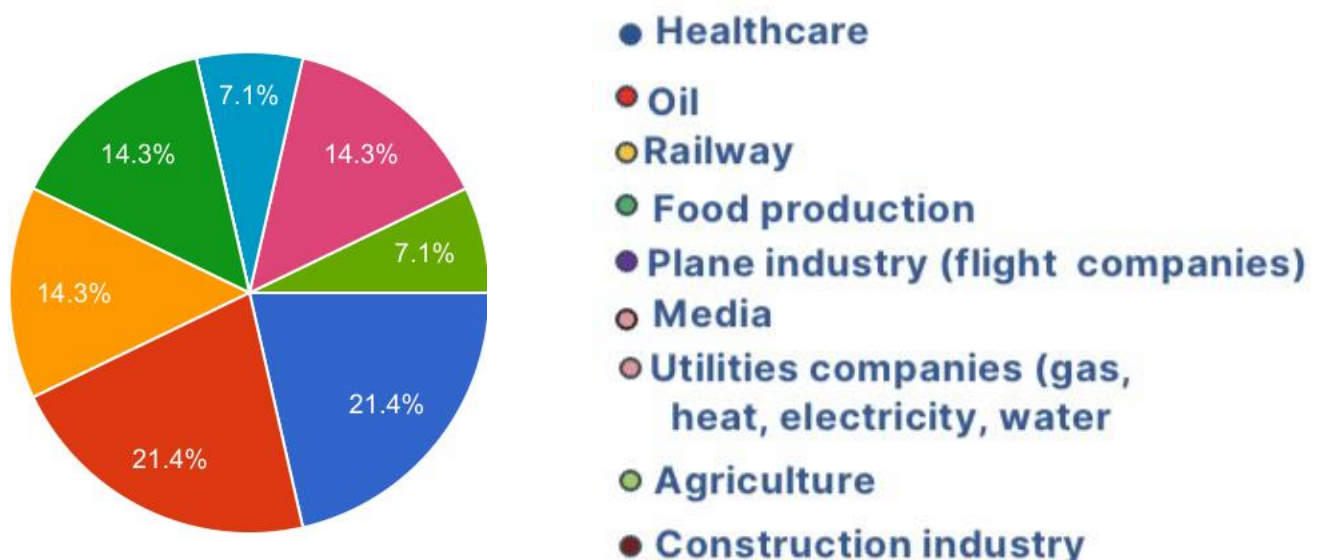


The results were opposite. We see that when people have their own business or work in the companies, they prefer monopolistic economy. We understand this choice as people think about the financial profit. And we remember that in monopolistic economy profit is the main advantage.

Our surveys prove that there is no one answer what is better.

To better explain the results of our survey, we will use some Russian and Indian companies as the examples.

Mark which industries must be monopolized.



Analyzing the graphs we can conclude that 21.4% of respondents think that such industries as Healthcare and Oil industry must be monopolized. And 14.3% chose Railway, Food production and Utilities companies to be monopolized.

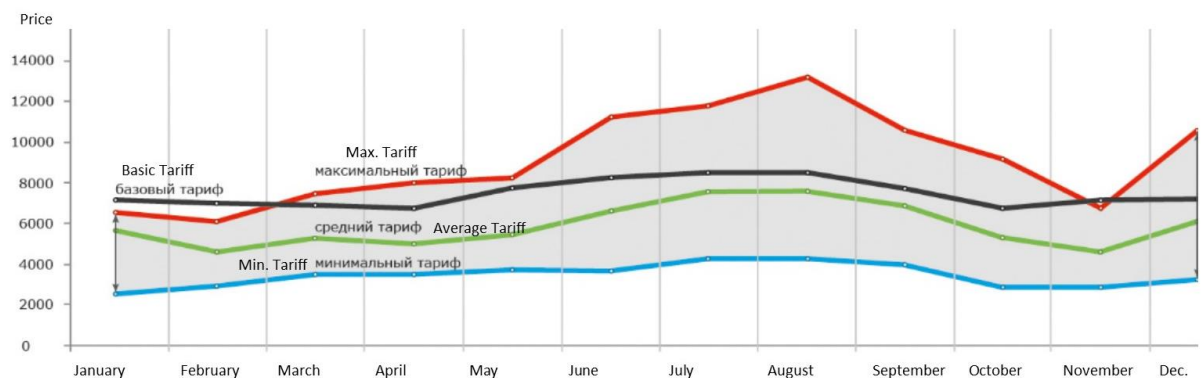
Examples of Monopoly

Let's look at such big Russian monopolist as Russian Railway (RZD). The sole shareholder and founder of Russian Railways is the Russian Federation. The powers of the shareholder on behalf of the state are exercised by the government of Russia. At the moment, the company is almost an absolute monopolist providing freight and passenger rail transportation services. Russian Railways owns the world's third longest rail network and related infrastructure in the Russian Federation. At the end of 2020, the company and its subsidiaries employed more than 0.8 million people, which makes the holding the largest employer in the country.

Russian Railways tries to create a more efficient holding management structure and maintain high standards for the provision of services. The development of the company will contribute to the successful implementation of the entire reform of railway transport which should bring positive results both for the organization itself and for consumers.

However, at the same time, the status of a monopoly for Russian Railways is the reason for low competition in the freight transportation market and its virtual absence in the passenger transportation sector in Russia. The main goal of the company, like any commercial organization, is to extract financial profit.

Let's look at the sample of seasonal price changing of Railway company.



Sample of seasonal price changing of RZD

Red line represents maximum price for bottom place.

Blue line represents maximum price for top place.

Green and **purple** lines represent price change due to some factors.

As we see on the graph, prices are growing high closer to summer seasons (+10% or +20%). And due to absence of competition consumers have no choice and have to pay too much money for the same service.



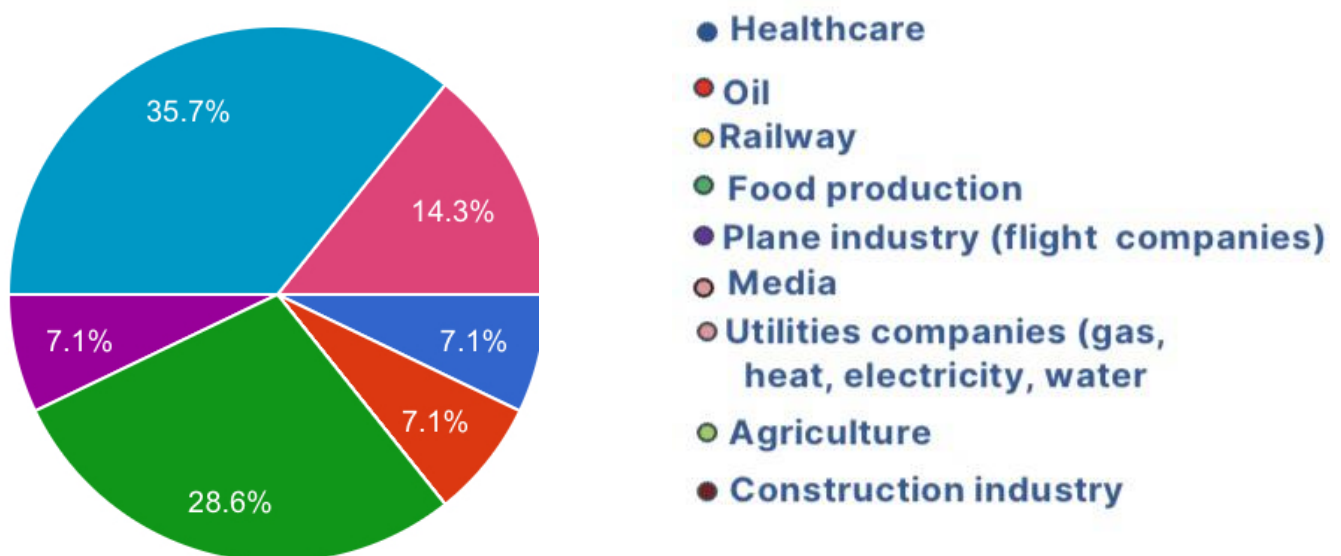
If we look at Indian Railways company, it is also a monopolist in India. Indian Railways (IR) is the state-owned railway company of India. Indian Railways had, until very recently, a monopoly on the country's rail transport. It is one of the largest and busiest rail networks in the world, transporting just over six billion passengers and almost 750 million tons of freight annually. IR is the world's largest commercial or utility employer, with more than 1.6 million employees.

At the same time the company uses its privilege of being monopolists by providing very old fashioned and not in good condition vans.

One of the worst examples of Indian monopolies is Oil Industry. Price and quality are the main reasons Indian oil businesses are awful. The lack of a market-determined pricing structure, technical issues, pollution, and a shortage of petroleum crude are some of the main issues facing the oil sector. Other issues include dependence on foreign nations, increasing prices, and a lack of capacity for oil refining.



Mark which industries must be competitive



Here we see only 2 industries with higher percentage of respondents who suggested to make these industries competitive - Food production(28.6%) and Media (35.7%)

Examples of Competition

According to our survey 28.6% of respondents suggested that Food Production Industry must be competitive.

The main areas of competition are pricing, packaging, the development of new products and flavors, and marketing campaigns.

In an industry as competitive as the food industry, knowing how your competitors interact with customers can offer your brand a

significant advantage. Monitoring and tracking how customers interact with publications about the competing brand and company can provide accurate information about customer preferences and also present ideas for innovation in your product and marketing strategy. Product innovation and adaptation to different moments of consumption is one of the keys to the sector's competitiveness.

Products must be sufficiently versatile to adapt to the diverse needs of consumers depending on the occasions in which they are purchased.

Food



We also want to mention one more industry for competition. It is Housing Services. In Russia you can find a lot of companies which suggest their services for houses.

From one side it has positive side. By choosing House service company, we choose the most suitable for all people who live in this house. But at the same time we must not forget that by providing low prices those companies sometimes forgetting about quality of those services.

Conclusion

After finishing our research we came to some conclusions.

First of all, monopolies are bad because they control the market in which they do business, meaning that they have no competitors. When a company has no competitors, consumers have no choice but to buy from the monopoly. The company has no check on its power to raise prices or lower the quality of its product or service.

The advantage of monopolies is the assurance of a consistent supply of a commodity that is too expensive to provide in a competitive market.

Secondly, competitive markets are more economically efficient than monopolies. In a competitive marketplace, firms have extra incentives to become efficient in production and lower the chances that there will be wasteful overproduction that causes losses or shortages which leave potential profits. At the same time companies can use low prices for providing low quality products.

We suppose that it cannot be exact answer what is better, but we think that some industries must be monopolized and some not. And no matter what we have monopoly or competition, companies must be under law regulations and control.

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