

## Profit Maximization By a Monopoly

Suppose firm is not a price taker, but instead is a "price maker" with market power.

Firm's demand curve is the market demand curve, hence, it slopes down.

Implies P does not equal **marginal revenue**, rather  $P > MR$ . The MR curve always lies under the firm's demand curve

P	Q	TR	MR
20	1	20	20
18	2	36	16
16	3	48	12
14	4	56	8
12	5	60	4
10	6	60	0
8	7	56	-4
6	8	48	-8

MR and price elasticity relationship:

If demand is elastic,  $MR > 0$

If demand is unit elastic  $MR = 0$

If demand is inelastic,  $MR < 0$

As before, to maximize profit, sell the Q where  $MR = MC$ . Because  $P > MR$ , P does **not** equal MC. To determine the right price to charge to sell this Q, the monopolist needs to refer to the demand curve, not the MR curve.

### Monopoly Profit Maximizing Equilibrium:

