Module 61 Introduction to Monopoly

De Beers, the world's main supplier of diamonds, is a successful monopolist that limits the quantity of diamonds supplied to the market. By doing so, De Beers drives up the price of diamonds.

Numerical Example:

Quantity of diamonds	Price of diamonds	Total Revenue	Marginal Revenue	Total Cost	Marginal Cost	Profit
0	$200	0		100		-100
1	180	$180	180	110	10	70
2	160	320	140	140	30	180
3	140	420	100	200	60	220
4	120	480	60	300	100	180
5	100	500	20	450	150	50

The first two columns of the table constitute the demand curve for the monopolist.

Marginal revenue is less than price at each output level.

The maximizing output level is 3, and the most profitable price is $140.

Market power is when a firm has the ability to charge a price greater than marginal cost. (P>MC)