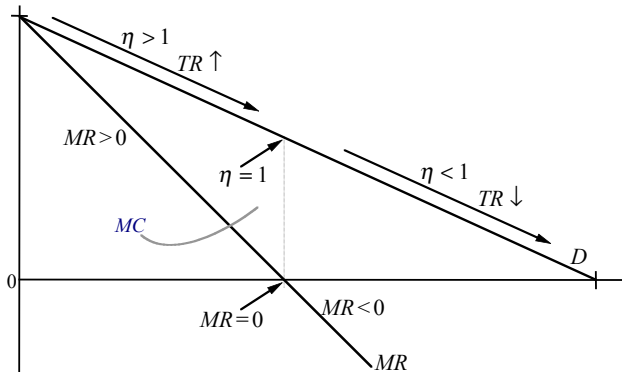
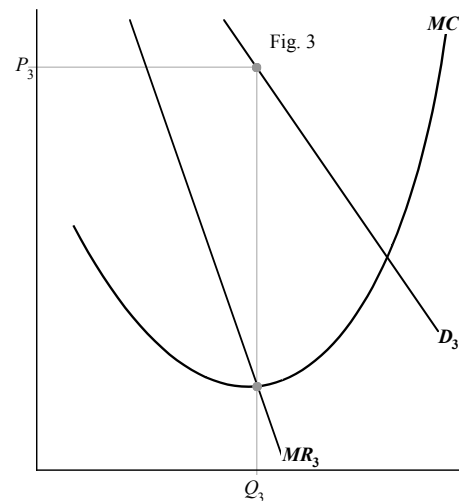
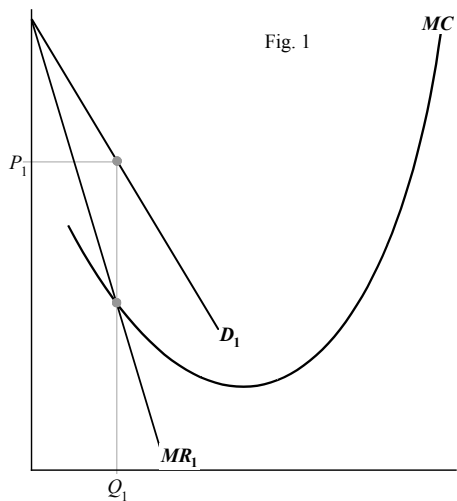
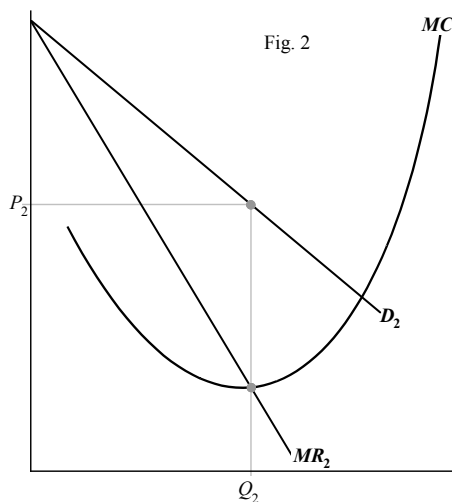
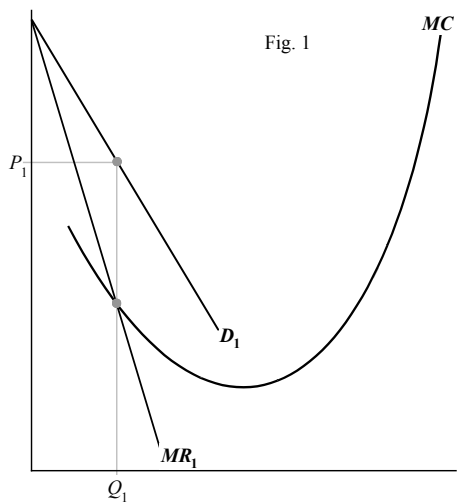


Some characteristics of MR

1. Elastic D means $MR > 0$
 Inelastic D means $MR < 0$
 Unitary η means $MR = 0$
2. Since $MC \geq 0$, monopoly must choose Q where $MR \geq 0$ – that is, it always produces in the elastic or unitary part of any D curve.
3. For straight-line D : MR and D curves meet at vertical axis, MR crosses horizontal axis at half of where D does.



Monopoly's response to an increase in demand



NEW FIRM ENTERS MONOPOLIST'S MARKET

Suppose that a new firm enters with "identical" product to the current monopoly. Also suppose that the new firm enters with identical ATC and MC as current monopoly (therefore same capital). What will happen in the market?

We now have two identical MC curves, one for each firm. The demand curve still represents the entire amount sold in the market – that is, the quantity demanded on the D curve at any P is the sales of the two firms combined.

Assume the new firm initially charges the same price as the old firm does. Then they will approximately split the market in half. One firm will realize that if it cuts price just a little it will gain the entire market and make nearly the same profit as the monopolist originally made. The other firm will sell nothing, thus making losses equal to fixed costs, and so must respond by undercutting the previous price. This price war will continue until we reach an equilibrium price like P_C in the diagram below. We will demonstrate why this is true in the next section.

