**Monopolies: Pros, Cons, and Effects on Economies**

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| A monopoly is a business that is the only provider of a good or service, giving it a tremendous competitive advantage over any other company that tries to provide a similar product or service.  Some companies become monopolies through vertical integration. They control the entire supply chain, from production to retail. Others use horizontal integration. They buy up competitors until they are the only ones left.  Some, like utilities, enjoy government regulations that award them a market. Governments do this to ensure electricity production and delivery because it cannot tolerate the disruptions that may come from free market forces.  Monopolies restrict free trade and prevent the market from setting prices. That creates the following four adverse effects:   1. Price fixing: Since monopolies are lone providers, they can set any price they choose. That's called price-fixing. They can do this regardless of demand because they know consumers have no choice. 2. Declining product quality: Not only can monopolies raise prices, but they also can supply inferior products. 3. Loss of innovation: Monopolies lose any incentive to innovate or provide "new and improved" products. 4. Inflation: Monopolies create inflation. Since they can set any prices they want, they will raise costs for consumers.   Sometimes a monopoly is necessary. It ensures consistent delivery of a product or service that has a very high up-front cost. An example is electric and water utilities. It's very expensive to build new electric plants or dams, so it makes economic sense to allow monopolies to control prices to pay for these costs.  Federal and local governments regulate these industries to protect the consumer. Companies are allowed to set prices to recoup their costs and a reasonable profit.  PayPal co-founder Peter Thiel advocates the benefits of a creative monopoly.﻿ That's a company that is "so good at what it does that no other firm can offer a close substitute." He argues that they give customers more choices "by adding entirely new categories of abundance to the world." |

Read the full article at <https://www.thebalance.com/monopoly-4-reasons-it-s-bad-and-its-history-3305945>

**Understanding Questions**

1. What is a monopoly? How can a company become a monopoly?
2. What bad effects could a monopoly company have on a market?
3. What positive effects could a monopoly have?

**Vocabulary**

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| monopoly | vertical integration | utilities |
| adverse | up-front cost | recoup (costs) |

**Phrases**

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| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ has a monopoly in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ industry. |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a monopoly. |

**Discussion topics**

* What monopolies are there in the world and Japan?
* What should governments do if an industry becomes a monopoly?

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| Pair Discussion – **A**   1. Do you think that your electric company does a good job?      1. What industries have a lot of competition? 2. Should the government stop monopolies? 3. How can a monopoly be good? |
| Pair Discussion – **B**   1. When you make a search on the internet, what site do you use? Why do you use it? 2. Are there any companies that you think are too big? 3. Do you think that JR does a good job in this prefecture? 4. Have you ever used a Mac computer? Do you like it more than Windows? |

**What should be done about monopolies?**

A government can do several things to a monopolistic company:

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| Breaking the company up into smaller companies | Nationalizing the company | Make laws to control the company or encourage competition | Leave it alone |

What do you think is the best thing to do for these monopolies?

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| **Microsoft**   * 80% of desktop computers use Windows * Also makes office software, video games, PCs, web browsers, and PC hardware |  |
| **Google**   * 86% of web searches are done with Google * Also makes smartphones, smartphone software, web browsers, e-mail systems, and office software |  |
| **Regional Electric Companies** |  |
| **Japan Rail**   * In many parts of Japan, it’s the only rail company |  |