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In the term of economic, the monopoly or monopolistic market indicates the existence of unique product with the seller and its powerful holding over the entire market. The determinants of demand and prices in the monopoly or monopolistic competitive market are not same as that of perfectly competitive market. In monopoly uniqueness of product, established setup and strong brand image, Government Regulations, exclusive licences, economics of scale operates as barrier to entry. It makes difficult for new comers to establish their foot print in the market or to have access to technology or innovation.

There are various factors in the market which determines the shape of demand curve. In terms of product design, if the product is designed and placed in the market in manner that attracts the consumer and provides them comfort or if consumers have particular liking or choice for specific type of product and prefers them then that leads demand curve to shift outwards, so that increase in quantity, increase revenue. On the other hand if the product design in complicated or it appeals to particular group of consumer, it would not shift but rotate the demand curve due to different valuations in willingness to pay. Apart from the product design, price is also important determinate shaping the demand curve. In case if the profit of firm increases corresponding to decrease in price, it evidences the existence of firm in market in elastic market. This because consumers of that market are price sensitive in nature. However in the monopoly market, the firm always evidences inelastic price elasticity. It indicates that the decrease in price leads to decrease in total revenue. This is because Consumers are no longer responsive to decrease in price.

In terms of demand, elasticity of the demand determines the mark up of the price. The less sensitive quality demand is to price the higher the mark-up is going to be. In monopolistic market, if the consumers are not price sensitive, the seller can sell its product at higher price, which would mean the more inelastic demand curve the higher the mark-up. Marginal costs would still be the same. This results into higher profit. However in most of the case the

If people are not sensitive to price monopolist would sell at higher price as much as it could have sold, which would mean the more inelastic demand curve the higher the mark-up. Marginal costs would still be the same. Thus increase the price would increase monopolist profits. This can be true subject to higher output. In case where the output tends to be low, the firm will not get the advantage of economic of scale. This will enhance marginal cost of the production. In that case operation may result into loss.

Monopolist can maximize its profit by producing level of output where marginal revenue is equal to marginal costs but marginal revenue is not same as price. Since monopolist is selling unique good it faces the entire downward sloping demand curve. As a result marginal revenue will be less than price. Monopolist keeps producing as long as marginal revenue is bigger than marginal costs until marginal revenue equal to marginal cost. Firm would use that point as profit maximising output. That would be then aligned to demand curve to work out the price. Profit maximising price is the highest price people are willing to pay for determined quantity. Alternatively to maximize revenue, firm could produce quantity where marginal revenue is zero.

If we consider the example of Cinthol, shop for personal care. Due to some unique features of the product, tendency of the consumer and relative product easiness, the demand of the product will not face more issues when it increase the price.

Moreover the marginal revenue of monopolist does not remain constant as in the case of the perfectly competitive firm. At this stage seller is always trying to establish possible price‐output combination on the market demand curve which maximize his profit. However if market will not allow him to adopt price discrimination, then the marginal revenue that the monopolist receives from producing an additional unit of output will always be  less than the price that the monopolist can charge for the additional unit.

Case Study:

In Kenyan market a telecom provider controls design and marketing of a unique financial services product ‘m pesa’. “It was developed by Vodafone and launched commercially by its Kenyan affiliate Safaricom in March 2007. M pesa operates a system of low-value electronic accounts held by the mobile operator.” (Ignacio Mas and AmoloNg’weno ,2009) Because of its reach of distribution and unique technology using telecom infrastructure became a barrier for other competitors to enter. For first two years banks were not allowed to offer banking services through agents, yet m pesa was offering services through agent network.

M pesa is a product offered in the mass market with universal appeal with avoidance of controversial features such as substantial charges which bank would generally charge. They did advertising campaign appealing the mass market with simple message ‘send pesa by phone’. Promoting a strong ‘m pesa’ brand. According to School of Business, University of Nairobi advertising strategy adopted by m pesa was selling the m pesa services persuasively and creatively. It created awareness of m pesa significantly which increases willingness to pay for mass market and shifts the demand curve outwards as discussed in the previous question. Due to elastic nature of the product it increased the demand, increasing revenue.

On the other hand ***paypal*** services, UK based organisation also provides the similar services for transfer of money using the internet facility. Their target audience includes online shoppers, e-Governance program, and other online services providers. As a product placement strategy the *Paypal* has adopted specific message rather than mass market awareness. The service of *Paypal* is designed in more complicated manner. Paypal marketing messages are more informative, goes into the details of buyer protection, accessibility, sign up process, security features etc. In comparison with the *M Pesa*, the service design is complicated which rotates the demand curve as discussed in the previous questions. Hype (Genera awareness) will always increase demand. “In contrast, real information allows consumers to evaluate their subjective preference and increases the dispersion of consumers’ valuations, and hence rotates the product’s demand curve” (Jonson & Myatt 2014)

This can be evidenced from the financial result of the organisation. Safaricom’s profit in 2015 increased 38 percent through primary contribution from m pesa. 47% of total revenue was driven from m pas to telecom’s balance sheet. (FT Alphaville, Jul 15). This shows that the easiness in the product or services design and its functioning helps the organisation to enhance its demand and corresponding revenue. Overall due to general brand and marketing awareness campaign telecom service provider benefited from the trust from consumers compared to banks.

M pesa case study confirms the observation that “changes in demand frequently correspond to changes in the dispersion of the underlying willingness-to pay of consumers, which lead to a rotation of the demand curve.” (Jonson & Myatt 2014)

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