Economic performance of a monopoly

Name

Institution

A monopoly market is one that has barriers of entry for other businesses. These businesses may be restricted to enter the market because of high costs of entry or other restrictions that can be societal, financial or political. A good example of a political setup is when government controls oil in a particular country.

An example of a company that exercises monopolistic power is Safaricom. This a mobile network company based in East Africa. The company earns high profits from its call rates. Safaricom was one of the early players in the communication industry especially in Kenya. Due to this early entry into the market, they have many mobile subscribers.

The communication industry in Kenya has seen other smaller players like YU mobile enter the market. Safaricom is reported to have been trying to maintain most of the calls made to be within their network by overcharging calls made by its subscribers to other networks. With this type of restriction, Safaricom is yielding numerous profits from the industry. The high cross network rates on calls have made it difficult for people to shift to the other smaller players in the communication industry.

A monopoly market is not efficient. The price of the goods and services are not set by the and thus they come at a high cost to the customer. Safaricom determines its own calling rates and as such the consumer has no option but to suffer. The other players like YU charge lower prices but because many of the mobile subscribers are in Safaricom, it because very expensive to call them from another network. The subscribers opt to remain in Safaricom because of the high cross network rates.

Reference

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