Monopoly Money — Perfect Competition and Monopoly Rents

SUBMITTED BY: Michael Ryan Moore, University of Pennsylvania, GSE

SUBJECT(S): Economics

GRADE LEVEL(S): 9, 10, 11, 12

OVERVIEW:

In this lesson, students will compare and contrast perfect competition with monopoly markets. The lesson begins with a brief discussion on barriers to entry. Next, students will break into small groups, brainstorming the barriers to entry and competition in different markets. Finally, students will read "Microsoft Vs. the Feds: Drawing the Battle Lines," using this case study to examine the impacts (positive and negative) of monopoly markets.

NBEA STANDARD(S):

- Economics, II. Economic Systems
- Economics, VII. The Role Of Government

RELATED ARTICLES:

- "How Dungeons & Dragons Sparks Business Insight"
- "Checkmate: Chess and the Game of Business"
- "A 'Battle Royale' Between Two Video Game Companies"
- "5 Takeaways from Today's Board Game Revival"
- "5 Takeaways from the Disney-Fox Merger"

Objectives/Purposes: The purpose of this lesson is for students to differentiate *monopolies* from *perfect competition.*

- Students will be able to define *competition.*
- Students will be able to define *monopoly.*
- Students will understand how *barriers to entry* can encourage monopolies.
- Students will think about government response to monopolies.

Knowledge@Wharton Article: "Microsoft Vs. the Feds: Drawing the Battle Lines"

Other Resources/Materials:

For Teachers:

- Internet Access (Outside of the Classroom)
- Printer/Copier
- Access to Chalkboard/Whiteboard
- Butcher Paper
- Markers
- Students can also view the WGYP video glossary definitions for Monopoly, Monopolistic Competition, Competition and Oligopoly.

Tying it All Together:

The lesson is divided into five parts: (1) Introduction, (2) Exploration Activity, (3) Class Discussion, (4) Guided Reading, and finally (5) Closing

1. Introduction (5-15 mins)

Introduce today's lesson by asking students about *competition*. Ask students to provide examples of competition. What does it mean to have competition? Next, ask students about the effects of competition. How does intense competition influence a business? If you are a business owner, and a rival moves in next door, what happens? (A good example is competing gas stations on the same corner. Ask students how they, as a business owner, would bring customers to the station.) Afterwards, look at this same competition from the customer side. Do customers benefit from high-competition or low-competition? Make sure students give concrete examples to support their claims.

Next, ask broader questions about the causes of competition. What companies/markets have lots of competition? What markets have almost no competition? Once students have given examples of each, ask students why this is the case. What differentiates high-competition and low-competition industries?

Use this discussion to introduce students to the concept of *barriers to entry.* A *barrier to entry* is any obstacle (financial, or otherwise) that makes it difficult for new companies to enter a market. Ask students if they can think of examples of barriers to entry. If necessary, pick a concrete case study. For example, in our hypothetical gas station scenario, what are the barriers to entry for a new station to open across the street?

Encourage students to think about how the barriers to entry differ for different markets. For example, how does the gas station scenario compare to a lemonade stand? How does a lemonade stand compare to a new soda company?

2. Exploration Activity (10-15 mins)

Break students into groups of 3-5. Give each group a large piece of paper and a marker. Each group should choose a company or market. If groups do not want to choose, you can assign companies yourself. (Examples include: clothing manufacturer, a bakery, a school, an online jewelry store, etc.).

Once each group has a business, ask groups to create two lists on their paper. One list is titled "competition." The other is titled, "barriers to entry." Give students 5-10 minutes, depending on time, to list the competitors in their industry, and the barriers to entry that new competition must face to enter the industry.

After time is up, have each group share their lists with the class. Ask the class to compare each of the groups' industries. Which faced the most competition? Which faced the most barriers to entry? Was there a relationship between the two? What distinguished the industries?

3. Guided Readings (5-10 mins)

Next, have students read through the article "Microsoft Vs. the Feds: Drawing the Battle Lines." As students read, encourage them to think about the relationship between competition and barriers to entry.

4. Class Discussion (1-5 mins)

Once students have finished reading, encourage students to briefly summarize the article. Provide students with a formal definition of *monopoly.* In a monopoly, there is a single seller or supplier. There are usually no substitute goods and barriers to entry are high.

Ask students why Microsoft might be a monopoly. Ask students if they can think of other monopolies.

Finally, bring the conversation back to the opening discussion. Ask students to think about who benefits from a monopoly: the supplier or the consumer? Use the gas station example if necessary. What happens to customers when there is only one company to buy from?

5. Closing (1-5 mins)

Close the discussion by redefining the key terms *barriers to entry* and *monopoly*. Remind students that high barriers to entry reduce competition. Ultimately, when there is no competition, we have a monopoly. Monopolies benefit the monopoly and can hurt consumers.

Practice Outside of the Classroom:

Ask students to think of themselves as entrepreneurs. If they could start their own company, what kind of company would they create? What are the real barriers to entry in that market?

What Worked and What I Would Do Differently

If time permits, encourage students to think of their own monopoly examples. After providing them with the gas station example, have students work in groups on a similar scenario. For example, what if there was only one restaurant?