

## Supplementary content 2 (for HKDSE 2028 and onwards)

### Monopoly may be beneficial to society

Although a monopoly may lead to a lower consumer surplus and economic efficiency, a monopoly can be beneficial to society under some circumstances.

#### 1. Monopolists may enjoy economies of scale

Since the number of firms in a monopoly market is smaller, a monopolist produces a larger quantity of output compared to a firm in a perfectly competitive market. Therefore, monopolists can enjoy economies of scale more easily and charge a lower price. Hence, consumers can also benefit.

The potential benefit is particularly large in industries with high fixed costs, e.g., electricity and gas supply.



*Fig. 2* The set-up cost of the gas supply industry is high in Hong Kong.

#### 2. Monopolists may have a higher incentive for R&D

Monopolists can be protected from competition by means of patents and copyrights and thus they can earn stable profits. This encourages them to conduct more R&D and to introduce more new products.



*Fig. 3* Some computer chip technology is protected by patents, which encourages firms to develop more advanced chips.

#### 3. Monopolists may be more efficient firms in the market

Some multinational corporations, such as Google and Microsoft, gain their monopoly power by outcompeting their competitors through efficient management, continuous innovation, etc. If only these corporations are left in the market, the average quality of products and services will rise and consumers can therefore benefit.