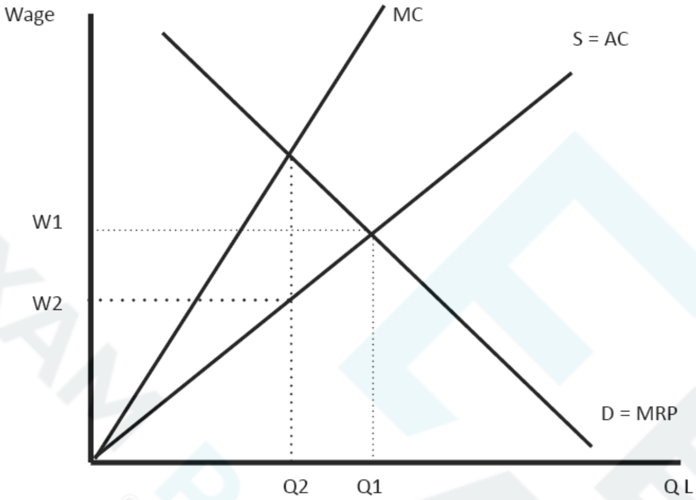
3.4.6 Monopsony

- Characteristics and conditions for a monopsony to operate
- Costs and benefits of a monopsony to firms, consumers, employees and suppliers

- Monopsony: a firm which is the sole buyer of resources or supplies.
- A monopsony firm can negotiate lower prices because their suppliers have nowhere else to sell to



- Monopsony diagram:
  - The MC of labour exceeds AC because a firm will have to increase wages for all workers
  - In a competitive market the equilibrium is where D=S, this is not the profit maximising point for a firm
  - A monopsony can pay a lower price W2 for a smaller quantity of labour because they are a wage maker
- A minimum wage in a monopsony can increase wages without causing unemployment
- Benefits of monopsony:
  - Firms can make more profit as suppliers cannot overcharge
  - Lower buying costs might be passed on to the consumer
  - Higher profits can be used to invest and innovate
  - It can give powers to buyers in the face of monopoly ownership of resources
- Costs of monopsony:
  - Suppliers can be squeezed out of business eg farmers by supermarkets
  - Limited choice for consumers as monopsony acts as a barrier to entry for new firms
  - Firms risk being investigated by competition authorities
  - Lower wages for workers which may make them unproductive