Due to monopoly condition other firms are not able to enter into the industry and such situation is known as ‘barrier to entry’. In fact the supplier has market power and for that market price can be set without reducing the sales to zero. Therefore, as a price-maker, the supplier considers the sales effect on the price it receives for its output.

The monopoly can either control the sales quantity or the price at which it sells its output. The fact is, eitherthe monopoly can choose to set the price or a quantity to supply. As a result, consumers’ demand for goods will be determined by the price controlling factor (Mankiw, 2012). Whereas, if the monopoly chooses to control the supply quantity then the consumers’ demand will be the decisive factor in charging the price to sell that quantity.

Significant price rise may not result in losing all its customers and the downward-sloping demand curve will explain the price demand relationship. The reason for this downward sloping curve is the existence of sole supplier in the market (Mankiw, 2012). In the monopolistic market, due to higher price the consumers’ demand will drop, but not to the extent of zero for limited substitutes of the product and obviously for non-existence of other suppliers.

However, in order to sell another unit, the monopoly has to charge a lower price. This revenue is increased by the sale of the additional unit at the slightly lower price.

Fig 1: Monopoly Demand, Revenue, Costs, and Profits

http://thismatter.com/economics/pure-monopoly-demand-revenue-costs-profits.htm

From the above, it is clear that as production increase marginal revenue continually declines until it becomes negative (Mankiw, 2012). The monopolist can earn the maximum total revenue at this point. Therefore, more production after this point will cause total revenue to decline.

Most economists agree on the point that trade among nations would make a better world. Living standards in both countries will be raised by purchasing a good or a service produced more cheaply abroad. Ricardo's observation as per most important concepts in economics is that comparative costs has greater driving force on trade than absolute costs. One country may be more productive than others in all the goods. It indicates that this country can produce any good by using fewer inputs (such as capital and labour) than other countries producing the same (Aldrich, 2004). Still Ricardo opines that such a country would benefit from trading according to its comparative advantage – exporting products in which it has the greatest absolute advantage and importing products with comparatively less absolute advantage.

A country can produce many goods, but it will be much better if it produces those goods in which it enjoys comparative advantage.The trade is still necessary as the country produces goods more efficiently will exchange it for the imports of the goods it can produce relatively less efficiently, as both would gain from specialising and trading on the basis of comparative advantage or cost.

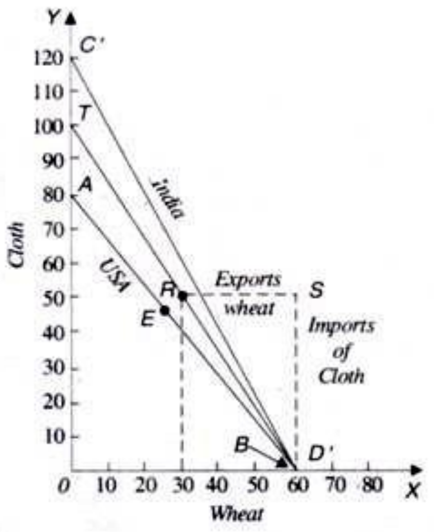

Fig. 43.3. *Comparative Cost Theory : Constant opportunity costs*

Fig 2: Comparative Cost Theory

http://www.yourarticlelibrary.com/economics/international-trade-comparative-cost-theory-with-its-assumptions/37637/

In the previous figure,it is clearly observed that while India can produce cloth at the lower comparative cost, the U.S.A can produce wheat at a comparatively cheaper cost (Carbaugh, 2011). So, in terms of constant opportunity costs a country can produce only one commodity, either wheat or cloth, after complete specialisation and trade.

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