Edexcel Economics A-level

Unit 3: Business Behaviour

Topic 3: Market Structures and Contestability

3.5 Monopsony

Notes

Characteristics and conditions for a monopsony to operate:

- A monopsony is a single buyer in a market. For example, Network Rail for track maintenance and the government for teachers are examples of a monopsony. Moreover, supermarkets have monopsony power when buying produce from farmers, which means they are able to negotiate low prices.
- It is assumed that monopsonists are profit maximisers.
- A firm with monopsony power is able to negotiate lower prices, because their suppliers have nowhere else to sell to (there is only one buyer).
- Firms with monopsony power are able to set the market price.

Costs and benefits of a monopsony to firms, consumers, employees and suppliers:

Costs	**Benefits**
It is the monopsony power of supermarkets that has led to many farmers losing profits. Farmers lose out to supermarket price wars, because supermarkets keep negotiating lower prices from farmers, in order to lower their own prices and compete with other supermarkets. Supplying firms are unlikely to make more than normal profit.	The NHS has monopsony power when buying drugs from pharmaceutical companies. They are able to negotiate lower prices for the drugs. This saves money which can be invested elsewhere, such as in R&D. Moreover, the NHS can then cover more treatments within their budget.
Employees are likely to lose out with lower wages. For example, those trained to be coal miners had little choice of who to work for. This meant their labour could be exploited by the employer. However, now this has been offset with the power of trade unions, which are able to negotiate higher wages and good working conditions.	By lowering the price paid to suppliers, consumers might receive lower prices.
Workers might become unproductive if wages are low.	