Business That Has Significant Market Power

A monopoly is defined as a business that has significant market power, that is, the power to charge overly high prices. Although size is not a characteristic of a monopoly, there can be a monopoly though there exist two or a few firms. Monopolies come about due to lack of competition which can have detrimental effects to societies.

Consumer welfare refers to the individual benefits one gets from the consumption of gods and services.it is ones assessment of his /her satisfaction given price and income.in Economics consumer welfare is the difference between what consumers would be willing to pay and what they actually paid for.it is the surplus thus sometimes consumer welfare may be referred to as consumer surplus.

The era of the internet brought about huge changes and opportunities to the global market place, with new technologies disruptions are inevitable in demand and cost structures causing's a transformation of existing market structure. The Internet is an enabling technology (Porter, 2001) that has allowed companies to influence both their demand and their costs at the same time, creating what Kim and Mauborgne (1997) call "value innovations". Google controls approximately 86.3% of global search results as of (April 2018) and along with Facebook received 70% of all advertising dollars spent online. However, this does not necessarily mean Google has discretion over price. In 2017, Google had revenues of approximately $110 billion.

The bulk of this revenue came from its advertising activities, in particular AdWords, AdWords functions on an auction basis with ad space awarded to advertisers with the highest bid (with content relevance also factoring in). This means the cost of advertising is determined by market participants. The consequence of this auction arrangement is the cost-per-click of advertising via Google has been dropping.

Considering another definition of monopoly by Friedrich Hayek. In The Constitution of Liberty he states the following: "One could conceive of a few other instances where a monopolist might control an essential commodity on which people were completely dependent, but unless a monopolist is in a position to withhold an indispensable supply, he cannot exercise coercion, however unpleasant his demands may be for those who rely on his services." Therefore the monopoly is "bad" if the firm is exercising coercive power over an essential commodity.essential goods are resources necessary for human existence that is water, food and shelter hence Google does not fall under that category but only under traditionalist economics perspective.

The monopoly power of patent provides an incentive for firms to develop new technology and knowledge that can benefit society. monopolies make supernormal profit and this supernormal profit can be used to fund investment which leads to improved technology and dynamic efficiencies. For example, large tech monopolies, such as Google and Apple have invested significantly in new technological developments.

The tech giants have become part and parcel of our daily lives although they started in garages, with ambitions to disrupt existing businesses and power structures; they are now the dominant companies seeking to maintain their position.

20 years ago, only one of the top 8 companies in the world was a technology company. Today seven of the eight most valuable are tech companies, with five based in the US and two in China. They are: Apple (worth $927 billion), Amazon ($778 billion), Alphabet (the holding company for Google, worth $766 billion), Microsoft ($751 billion), Facebook ($542 billion), Alibaba (the ‘Chinese Amazon’, $499 billion) and Tencent (the ‘Chinese Facebook’, $491 billion), with a combined market capitalisation of $4.75 trillion.the remarkable thing is the pace at which this technology companies have captured top spot.

Many of these tech companies have seized entirely new markets, like Amazon with ebooks or Google with search engines; or they share a market with a small group of competitors, like Google and Apple for smartphone operating systems. Other markets have been disrupted, with the tech companies generally coming out on top, like Google and Facebook in advertising, or Facebook and Tencent for messaging via Messenger, WhatsApp and Wechat, which they all own.

The extent to which tech giants dominate the advertising space is an example of how they are able to enter new markets with large players and an established way of doing business, only to fundamentally change the way of doing business and capture the market. Out of a total $172.2 billion of advertising spend in the top 10 companies, over 60% goes to just Google and Facebook. Only taking online spend into account means that Google and Facebook have an 84% market share.

What is most interesting is that despite this dominance none are seen by regulators as monopolies, though the big challenge is whether legally they should be defined as monopolies. There needs a broader definition of that does not require customers to be overcharged, but one that is based on the power the companies have over the market.

Google, Amazon and Facebook have great technologies but there current status and financial success comes from regulatory and antitrust laws mistakes. Amazon was allowed to buy dozens of e commerce rivals and online booksellers to give it a monopsony position in the book industry. Google was able to buy its main competitor, DoubleClick, and vertically integrate online ad markets by buying advertising exchanges. Facebook was able to acquire Instagram and WhatsApp with no regulatory challenges. Google, Amazon, Apple, Facebook, and Microsoft have together acquired over 500 companies in the last 10 years.

Most new tech startups never get the chance to compete with the established companies, because as soon as they prove their technologies, they are acquired,also evidence is showing that increasing industrial concentration via all the merger activity is leading to lower productivity, lower wages and destroyed economic dynamism. And despite the fetish for lower prices, highly concentrated industries have been raising prices on their consumers. This is why you keep paying more for worse service on airlines, as an example.

The marketplace has always had big companies seeking monopoly positions in markets, and over time legislation and policy have been made up to try and ensure that their harms are counteracted. This new generation of tech monopolies poses a serious challenge for how we understand the concept of monopoly itself, as well as traditional thinking about what ways we should adopt to mitigate against the potential negative consequences. The tech giants, many of whom operate vast online marketplaces or platforms, have become good at focusing their dominance power on the producer side while ensuring cheap to free services to users.

The strategy of buying off the users at the expense of the producers has been hugely successful. This makes the case for reform hard to argue since it is likely to impact millions, if not billions, through potentially increased prices. Tackling the concentrations of power in these new tech giants will require innovative legal and technical work to ensure that we retain access to the goods and services that have become part of our lives without sacrificing our own power and control over the companies that we interact with.