

At \$2.00 I can sell 50,000 hats costing \$1.20 each;  
 net profit on each hat 80c.; or.....\$40,000

### Fixation of Monopoly Price.

Our manufacturer, then, experiments with the above results, and after thoroughly testing what he can sell at the various prices places the price at \$3.00 and keeps it at that until \$3.00 becomes recognized in that community as the customary price for a hat.

From this we may derive the general conclusion that when an individual or a group of men acting together are in control of the supply of an article, the price at which they will sell it will be that at which the total aggregate profit to themselves will be greatest. They will not put the price extremely high, because then ordinary people will try to find some substitute, if the article is not absolutely indispensable to life; the demand at the high price will be slight, the sale will be small, and, although the profits on each article sold will be large, yet they will not total as much as if a lower price had been set and a greater number of articles sold. In order to sell on a very large scale, the monopolists must, as a rule, be content with a fairly moderate price per unit of product. They cannot usually force goods on a consumer who does not find it worth his while to buy them. His demand and the price which he is willing to pay is governed by the utility of the article to him, and, as we have seen in Lesson I., this utility is a diminishing utility—it decreases with every increase in the amount of the article which he already has.

The manufacturer seems now to be in a very enviable position, raking in large profits from the sale of the articles which he controls. But to some extent at least he is a colossus with feet of clay. Selling hats at \$3.00 which cost him only \$1.30 to produce, he is never sure that some new man may not commence manufacturing the goods and cut into his very profitable trade. There is no law against it. The

\*The decline in cost of production here shown is owing to the saving due to large scale production.