

Monopsony power

Definition

A monopsony exists when there is a single or dominant buyer in a market. This is different from a monopoly, where there is a single or dominant seller.

Monopsony power exists when one buyer purchases a large proportion of a product or labour, giving it power to push down supplier prices or wages.

Examples include:

- NHS (Labour): Employs 1.5m UK staff , giving it severe wage setting monopsony power over salaries.
- **Apple App Store (Digital)**: Controls access to iOS users, enforcing a standard 30% commission cut on digital sales.
- **UK Supermarkets** : Tesco and Sainsbury's leverage massive buying power to depress prices paid to dairy farmers.

Costs and benefits of monopsony

The monopsonist firm

Benefits:

- Lower costs → Higher profits
- Large suppliers may provide reliable inputs
- Some employees may receive higher wages

Costs:

- Suppliers may reduce input quality
- Regulators may impose fines or restrictions . For example the *GCA can fine supermarkets up to 1% of turnover for exploiting suppliers* .

Suppliers

Benefits:

- Regular orders can provide predictable demand. For example *British Sugar offers large contracts to over 2,300 beet growers, guaranteeing demand* .

Costs:

- Suppliers receive lower prices → Could be forced to shutdown For example the number of UK Dairy farms down over 50% from 2000 to 2020.

Workers

Benefits:

- A large employer may provide stable employment For example the NHS hires over 1.5 Million staff .

Costs:

- Wages may be below the competitive level
- Employment may be lower

Consumers

Benefits:

- Lower input costs may reduce prices → Consumer surplus rises

Costs:

- Cost savings may not be passed on
- Product quality and innovation may fall (Suppliers have less incentive to produce quality goods as being exploited with monopsony power)
- Supplier closures may reduce choice