

## **MICROECONOMICS AT WORK EXERCISE**

### **THE POWER OF A MONOPOLIST**

**REFERENCE: ‘Road kill’** (by Andrew Dodd), *The Weekend Australian*, May 17–18, 2003, pp. 29, 34.

**CHAPTERS RELEVANT TO THIS EXERCISE:** Chapters 3, 4, 10.

### **OVERVIEW**

The subject of this article is the Midlands Expressway in the UK, the first toll road in the country, built and owned by the Australian Macquarie Infrastructure Group (MIG). The expressway bypassed the notoriously congested section of motorway near Birmingham and offered the attractive opportunity to motorists (including those transporting goods) to save time and money by avoiding this congestion. The degree of monopoly thus acquired by MIG, and the monopoly profits that could be made as a consequence, were highlighted in an extraordinarily frank statement made by the (Australian) director of infrastructure investment (it happened by telephone from a cocktail party, where executives of the firm were celebrating their good fortune). MIG (a subsidiary of Macquarie Bank) owns other toll roads in both Australia and other countries and is in fact the largest owner of toll roads in the world. Has it found a formula for extracting monopoly profits to the maximum degree possible?

### **QUESTIONS**

1. In what sense, and to what extent, does MIG hold a monopoly on the Midlands Expressway?
2. Was the MIG director literally correct when he said: ‘We can put up the tolls by whatever we like...’?
3. What is the meaning of the term ‘traffic calming’ in this context, and how does it affect the monopoly power of toll-road owners?
4. What does a company have to do in order to acquire monopoly power in the case of toll roads?
5. Under what circumstances might the monopoly power of MIG be eroded, in the case of the Midlands Expressway in particular and with other toll roads it owns in general?