Can a monopoly increase the welfare of its consumers?

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Demand uncertainty may be a significant barrier for firms to enter the market. This study suggests that an establishment of a monopoly which absorbs demand uncertainty by commitment to determine a long-term stable price, may be efficient by reducing the uncertainty level. An economic model examines the social welfare consequences of establishing such a monopsony in the waste recycling market in Israel. The model provides a good description of many other markets with high entry cost and price volatility. The results show that an establishment of a monopsony in the waste recycling market could be an efficient process from a social welfare perspective (welfare increasing); this depends on the market's uncertainty level and the technological changes resulting from eliminating uncertainty. In the case study shown in Israel, creating a regulation that allows larger municipalities to sell the waste at competitive prices (international market prices) and allows small municipalities to recycle at a monopsony price, will lead to improved social welfare. The novelty of this study stems from the proof that a monopsony may increase the market size in markets with high levels of uncertainty, thus increasing the consumers benefit. A monopsony creates "certainty benefits" by reducing the risk premium arising from price fluctuations and the entrance of new players, and although it gains excessive profits, the benefit of reducing uncertainty may be greater than the loss of a monopolistic exploitation.

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