

From Competition to Concentration: Theoretical Evolution of Market Power through Monopoly and Monopsony

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Abstract

This study explores the theoretical evolution of market power from classical competition toward concentrated market structures, emphasizing the dual manifestations of monopoly and monopsony. Using a systematic literature review of foundational and contemporary sources, the research traces how microeconomic theory has transitioned from equilibrium-based efficiency models to dynamic analyses of strategic behavior, information asymmetry, and digital dominance. The findings reveal that monopoly and monopsony are symmetric mechanisms of price distortion—each reducing welfare through the restriction of mutually beneficial exchanges. Monopolies elevate prices by controlling output, while monopsonies depress input prices by restricting demand, resulting in comparable deadweight losses and efficiency reductions. Empirical evidence shows that rising market concentration, particularly in digital industries, has deepened income inequality and diminished labor's share of output. Digital platforms exemplify the convergence of monopoly and monopsony power, leveraging data analytics, algorithms, and network effects to dominate both product and labor markets. These dynamics extend traditional theories of market power beyond static frameworks, emphasizing their systemic and global nature. The study concludes that contemporary market power demands an integrated analytical and policy approach. Effective regulation must simultaneously address consumer welfare, labor market fairness, and innovation incentives. By synthesizing insights from industrial organization, welfare economics, and digital competition studies, this paper contributes to a refined understanding of how monopoly and monopsony shape economic outcomes in the twenty-first century. The results highlight the need for adaptive competition policies to preserve efficiency and equity in a data-driven global economy.

Keywords: market power, monopoly, monopsony, digital economy, welfare economics.

1. Introduction

The evolution of microeconomic thought has revealed a significant shift from the classical assumption of perfect competition toward the recognition of concentrated market power as a persistent feature of modern economies. In classical frameworks, competition was assumed to guarantee efficiency, optimal allocation of resources, and welfare maximization. However, the growing empirical evidence of industrial concentration has shown that such conditions rarely exist in reality. Nicholson and Snyder (2016) describe how deviations from perfect competition—manifested in monopoly and monopsony structures—lead to inefficiencies and redistribution of welfare among market participants. These deviations have prompted economists to reconsider foundational principles of price formation, efficiency, and welfare within microeconomic analysis. The emergence of market power theory represents an essential stage in the evolution of microeconomics. While early neoclassical models emphasized equilibrium and marginal analysis, modern theories integrate strategic behavior, information asymmetry, and institutional factors to explain deviations from competitive outcomes. Varian (2019) asserts that monopoly and monopsony are mirror structures of market imperfection, each revealing how dominance by a single agent distorts prices and quantities in product and factor markets. Tirole (2017) further strengthens this view through industrial organization models that illustrate how barriers to entry, strategic pricing, and collusion sustain concentrated power. These theoretical advancements mark a transition from abstract competition models toward analytical realism in understanding market dynamics.

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In recent decades, the global economy has witnessed increasing concentration across sectors, particularly in digital industries, finance, and labor markets. De Loecker, Eeckhout, and Unger (2020) empirically documented a rise in market power among large firms, linking it to higher profit margins and declining labor shares. Similarly, Azar, Marinescu, and Steinbaum (2022) identified significant monopsonistic tendencies in labor markets, where a limited number of employers suppress wages below competitive levels. Such findings highlight how monopoly and monopsony coexist within modern economies, challenging traditional models that treat them as isolated cases. These phenomena reflect structural transformations where scale, data control, and technology reinforce market dominance and alter welfare outcomes. From a welfare perspective, both monopoly and monopsony generate deadweight losses that reduce total surplus, albeit through distinct mechanisms. In monopolies, producers restrict output to raise prices, transferring consumer surplus into producer gains, whereas in monopsonies, dominant buyers depress input prices, harming suppliers and reducing total trade volume. Perloff (2020) and Stiglitz and Walsh (2020) emphasize that these twin distortions mirror each other within the same theoretical logic of market failure. Autor, Dorn, Katz, Patterson, and Van Reenen (2020) empirically show that concentrated market power contributes to declining wage shares and productivity dispersion, reinforcing the argument that market concentration undermines equitable and efficient economic outcomes. Thus, the study of monopoly and monopsony is central to understanding the welfare implications of modern capitalism.

The contemporary relevance of market power has reignited scholarly debate on competition policy, inequality, and innovation. As Furman and Orszag (2021) and Philippon (2019) note, the dominance of “superstar firms” across global industries has blurred the boundaries between monopoly and monopsony, where the same firm may exert control over both consumers and suppliers. This dual concentration of power demands a re-examination of traditional microeconomic frameworks and regulatory paradigms. Therefore, understanding the theoretical evolution from competition to concentration not only provides historical insight but also informs the design of policies that balance efficiency, fairness, and innovation in modern economic systems. The relationship between market structure and innovation has become a central debate in modern industrial economics. While monopoly was once theorized to promote innovation through economies of scale and secure returns (as argued by Schumpeterian perspectives), contemporary studies reveal a more nuanced reality. Empirical research by Aghion, Bergeaud, Blundell, and Griffith (2021) demonstrates that excessive market concentration may discourage innovation by reducing competitive pressure and entry incentives. Conversely, limited degrees of competition can stimulate firms to innovate as a defensive mechanism to maintain market position. These findings reshape classical interpretations of monopoly power, suggesting that innovation outcomes depend on the balance between competition intensity and market dominance.

Similarly, monopsony has re-emerged as a critical topic in labor market analysis. Modern labor economics has documented how large employers can exert monopsonistic control over wages and working conditions, particularly in gig-economy and digital labor platforms. Manning (2021) highlights that even modest levels of labor market concentration can lead to substantial wage suppression without requiring traditional collusion. This view is supported by Benmelech, Bergman, and Kim (2022), who found that increased employer concentration correlates with lower wage growth and reduced labor mobility in the United States. These findings reveal that monopsony is not merely a theoretical construct but a growing empirical reality in contemporary labor markets shaped by technology and corporate consolidation. In both monopoly and monopsony, power asymmetries play a crucial role in determining economic outcomes. Mas-Colell, Whinston, and Green (1995) formally established that deviations from competitive equilibrium distort welfare through misaligned marginal costs and prices. More recent contributions, such as those by Syverson (2019) and Edmond, Midrigan, and Xu (2023), extend this framework by demonstrating how market power affects aggregate productivity, inflation dynamics, and income distribution. As these distortions accumulate, the overall efficiency of the economy declines, and inequality widens. Hence, the evolution of microeconomic theory reflects an ongoing effort to integrate market imperfections into models that better explain real-world disparities and macroeconomic consequences.

From a policy perspective, the renewed attention to market power has significant implications for antitrust regulation and welfare economics. Theoretical models derived from Tirole (2017) and empirical insights by Autor et al. (2020) suggest that restoring competitive equilibrium requires targeted interventions that consider both product and labor market concentration. Recent reforms in the United States and European Union emphasize multi-dimensional antitrust approaches that combine price-based indicators with structural and behavioral assessments. As Khan (2018) argues in the *Columbia Law Review*, traditional antitrust frameworks focused solely on consumer prices are insufficient in addressing digital-era monopolies that exploit data control and platform dominance. This evolution underscores the necessity of a more comprehensive policy lens grounded in updated microeconomic theory. Ultimately, the study of

monopoly and monopsony encapsulates the transition from the idealized world of competition to the pragmatic reality of concentration. Modern economies, particularly in the digital and globalized era, operate within complex structures where firms simultaneously wield monopoly power over consumers and monopsony power over suppliers or workers. Understanding this duality is essential for evaluating how economic efficiency, equity, and innovation interact under concentrated market structures. As Varian (2019) and Stiglitz & Walsh (2020) affirm, revisiting the theoretical foundations of market power remains fundamental for designing policies that preserve the benefits of competition while mitigating its failures.

Therefore, exploring the evolution from competition to concentration through monopoly and monopsony provides both a theoretical and empirical framework for understanding the challenges of modern capitalism. As global markets become increasingly integrated, the manifestation of market power extends beyond domestic boundaries, influencing international trade patterns and global supply chains. Empirical research by Amiti and Konings (2017) demonstrates that large exporting firms can exercise both monopoly power in pricing their goods and monopsony power in sourcing intermediate inputs. This duality allows firms to manipulate price margins across borders, affecting competitiveness and terms of trade. Consequently, the interaction between monopoly and monopsony within global value chains highlights the growing relevance of cross-market power as a determinant of international economic outcomes, reinforcing the need to reinterpret microeconomic models in a globalized context.

Moreover, the growing role of digital platforms has redefined how market concentration operates in both product and labor markets. Platforms such as Amazon, Uber, and Apple serve as prime examples of entities capable of simultaneously exercising monopoly power over users and monopsony power over suppliers. Research by Cunningham, Ederer, and Ma (2021) illustrates how dominant firms use strategic acquisitions to maintain control over innovation pipelines, effectively neutralizing emerging competition. Similarly, Dube, Jacobs, Naidu, and Suri (2020) provide evidence that algorithmic wage-setting mechanisms have strengthened monopsonistic control over gig workers. These digital-era dynamics reveal that technological infrastructure has become a new frontier for market power, blurring traditional distinctions between producer and buyer dominance. From a macroeconomic standpoint, the cumulative effects of monopoly and monopsony contribute to structural imbalances that can amplify inequality and reduce aggregate demand. Autor, Dorn, Katz, Patterson, and Van Reenen (2020) connect rising industrial concentration with declining labor shares, while Baqaee and Farhi (2022) model how market power alters aggregate productivity through misallocation and markups. Their findings suggest that as firms gain pricing power, both output and labor compensation decline relative to competitive benchmarks, leading to secular stagnation tendencies. This macro-micro linkage underscores that studying market power is essential not only for microeconomic efficiency but also for understanding long-run growth dynamics and macroeconomic stability.

The persistence of concentrated market structures has prompted renewed debates among economists and policymakers regarding the appropriate balance between regulation and innovation. Bloom, Schankerman, and Van Reenen (2020) argue that moderate market power may be necessary to sustain R&D investment, while excessive concentration discourages new entrants and stifles technological diffusion. This dual nature of market power highlights a critical policy dilemma: how to foster innovation without enabling monopolistic entrenchment. In the same vein, Aghion et al. (2021) emphasize the importance of “creative destruction” as a dynamic force capable of restoring competition and mitigating the welfare losses associated with concentration. In summary, the theoretical evolution from competition to concentration encapsulates the transformation of microeconomic analysis from idealized models of efficiency to realistic frameworks acknowledging power asymmetries and institutional complexity. Monopoly and monopsony stand as the twin pillars of this transition, offering complementary perspectives on how market dominance shapes allocation, distribution, and innovation. As economies become increasingly digitalized and globally integrated, understanding these dual dimensions of market power becomes imperative for both theoretical advancement and policy design. Thus, this literature review seeks to synthesize classical, neoclassical, and contemporary insights to explain how market power evolves, operates, and affects welfare in the modern economy.

2. Research Method and Materials

This study adopts a qualitative approach using a systematic literature review (SLR) method. The purpose of this approach is to explore and synthesize theoretical developments explaining the shift from perfect competition to market concentration, manifested through *monopoly* and *monopsony* structures. According to Snyder (2019), literature review methods are particularly suited for identifying, evaluating, and integrating existing scholarly works to develop

a comprehensive conceptual understanding of an evolving phenomenon. Hence, this study employs an analytical, interpretive, and reflective orientation, emphasizing theoretical synthesis rather than empirical testing.

The research relies exclusively on secondary data, obtained from both foundational textbooks and peer-reviewed journal articles. Core references include advanced microeconomic texts such as Nicholson and Snyder (2016), Varian (2019), Tirole (2017), Mas-Colell, Whinston, and Green (1995), Perloff (2020), and Stiglitz and Walsh (2020). Complementary literature was sourced from high-impact international journals published between 2015 and 2025, retrieved via *ScienceDirect*, *Wiley Online Library*, *JSTOR*, *SpringerLink*, and *Taylor & Francis Online*. These articles contribute theoretical and empirical perspectives on *market power*, *industrial organization*, *welfare economics*, and the evolving dynamics of digital and labor markets.

The review process involved four sequential stages: (1) literature identification using keywords such as market power, monopoly, monopsony, industrial concentration, and competition policy; (2) preliminary screening through title and abstract evaluation; (3) full-text assessment based on inclusion criteria; and (4) thematic synthesis to integrate theoretical findings into a coherent analytical framework. Reference management tools like *Zotero* and *Mendeley* were used to ensure systematic documentation and citation integrity. The review emphasizes academic credibility, conceptual relevance, and consistency with microeconomic and industrial organization theory.

The inclusion criteria required that sources (a) be published between 2015 and 2025, (b) explicitly address monopoly, monopsony, or market power, (c) apply formal economic modeling or empirical analysis, and (d) possess valid DOIs and peer-review status. Exclusion criteria eliminated non-academic materials, unverified sources, and publications lacking theoretical grounding. This filtering ensured that the selected corpus reflected the most credible and contemporary contributions to the study of market concentration and welfare economics.

Data analysis was conducted through a conceptual thematic framework, classifying the reviewed literature into four analytical themes: (1) *evolution of competition theory*, (2) *analytical and comparative models of monopoly and monopsony*, (3) *welfare and efficiency implications of market power*, and (4) *policy and regulatory perspectives*. Each theme was analyzed to trace theoretical continuities and paradigm shifts from classical equilibrium models toward modern conceptions of power asymmetry and institutional complexity. A triangulation strategy was applied to validate conceptual coherence across formal theory, empirical findings, and policy interpretations.

Finally, the synthesized analysis yielded a conceptual framework for the evolution of market power, linking classical competition theory with modern industrial and informational economics. This synthesis illustrates how *monopoly* and *monopsony* embody equilibrium distortions that define market concentration in the 21st century. By integrating canonical models (Varian, 2019; Tirole, 2017) with empirical evidence (De Loecker et al., 2020; Manning, 2021; Aghion et al., 2021), the study contributes a holistic understanding of how market power evolves, operates, and influences economic welfare in both traditional and digital contexts.

3. Results

The evolution of microeconomic theory reveals that market power has shifted from being a minor deviation within competitive assumptions to a structural feature of modern economies. Findings from Nicholson and Snyder (2016) and Varian (2019) highlight that deviations from equilibrium—whether on the demand or supply side—create opportunities for economic agents to influence prices. In a monopoly, firms restrict output to raise prices, whereas in a monopsony, buyers depress input prices below equilibrium levels. These dual distortions represent symmetrical reflections of the same fundamental imbalance in market power that reduces efficiency and redistributes welfare.

The synthesis of theories by Tirole (2017) and Perloff (2020) reinforces the view that market power dynamics are inherently strategic rather than accidental. Through game theory, Tirole demonstrates how firms create entry barriers and exploit economies of scale to preserve dominance. Perloff (2020) complements this with a mathematical framework quantifying *deadweight loss* and welfare distortions produced by monopolistic and monopsonistic behavior. Together, these perspectives provide a rigorous theoretical foundation linking market concentration, efficiency, and welfare distribution.

Recent empirical literature confirms that the increase in market power is a global trend. De Loecker, Eeckhout, and Unger (2020) documented a sharp rise in firm markups since the early 2000s, signifying growing monopolistic control across industries. Simultaneously, Manning (2021) and Benmelech et al. (2022) demonstrate monopsonistic tendencies in labor markets, where concentrated employers suppress wage growth and limit worker mobility. These

findings show that both monopoly and monopsony produce similar welfare losses albeit through opposite market mechanisms culminating in reduced total surplus and heightened inequality.

Table 1. Theoretical Literature Synthesis on Market Power, Monopoly, and Monopsony

No	Source & Year	Focus of Discussion	Contribution to Market Power Theory
1.	Nicholson & Snyder (2016)	Relationship between demand-supply functions and market efficiency	Explains how market power arises from deviations in competitive equilibrium.
2.	Tirole (2017)	Industrial organization and pricing strategies	Develops formal models of monopoly and monopsony using strategic game-theoretic approaches.
3.	Varian (2019)	Consumer and producer behavior in imperfect markets	Demonstrates how bounded rationality contributes to monopolistic behavior.
4.	Perloff (2020)	Application of calculus in price theory and market equilibrium	Provides mathematical foundations for measuring deadweight loss caused by monopoly and monopsony.
5.	Stiglitz & Walsh (2020)	Asymmetric information and market efficiency implications	Expands the theory of market power by linking it with informational inequality and regulation.
6.	De Loecker, Eeckhout & Unger (2020)	Empirical evidence of global rise in market power	Provides empirical proof of increasing firm markups as an indicator of global market concentration.
7.	Manning (2021)	Monopsony in labor markets	Explains the mechanism of wage suppression resulting from employer concentration.
8.	Aghion et al. (2021)	Relationship between market concentration and innovation	Shows that excessive market power can discourage long-term innovation.
9.	Benmelech, Bergman & Kim (2022)	Correlation between firm concentration and wages	Provides empirical evidence of monopsony effects on wage stagnation.
10.	Edmond, Midrigan & Xu (2023)	Market power and macroeconomic implications	Demonstrates the impact of market concentration on inflation and aggregate productivity.

Studies by Aghion et al. (2021) and Bloom, Schankerman, and Van Reenen (2020) introduce an innovation dimension to market power theory. Their results reveal that moderate concentration may foster innovation by allowing firms to recover R&D costs, yet excessive dominance deters new entrants and slows technological diffusion. Thus, the balance between competition and concentration becomes a crucial determinant of sustainable economic growth. This is particularly relevant in digital economies where platform firms such as Google, Amazon, and Apple act simultaneously as monopolies over consumers and monopsonies over suppliers or gig workers.

Overall, the literature synthesis demonstrates that modern market power theory has evolved from static, equilibrium-based frameworks to dynamic systems encompassing strategic interaction, information asymmetry, and macroeconomic consequences. Market power is no longer viewed merely as a deviation from efficiency but as a structural condition arising from interdependent agents within concentrated markets. Understanding the dual mechanisms of monopoly and monopsony is therefore essential not only for advancing microeconomic theory but also for guiding competition policy, labor regulation, and innovation governance in the contemporary global economy.

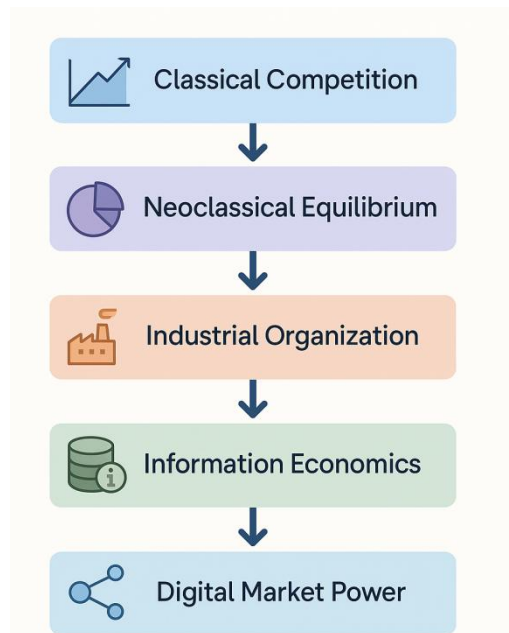


Figure 1. Evolution of Market Power Theory in Microeconomic

The diagram illustrates the intellectual progression of microeconomic theory from the foundational principles of *Classical Competition* to the complex realities of *Digital Market Power*. Each stage represents a distinct paradigm shift in how economists conceptualize market efficiency, firm behavior, and power asymmetries. The flow of the diagram from early equilibrium models toward dynamic digital structures signifies the deepening understanding of how deviations from perfect competition shape welfare outcomes. It visually encapsulates the transition from static market assumptions to interactive frameworks where strategic behavior and information asymmetry play critical roles.

The Classical Competition stage, represented by the upward trending graph icon, marks the birth of competitive theory led by Adam Smith and Alfred Marshall. This period emphasized the “invisible hand” mechanism, where decentralized decisions ensured efficient outcomes. Market power was viewed as an anomaly rather than a systemic issue. The shift to the Neoclassical Equilibrium phase introduced formal mathematical modeling, led by thinkers like Pareto and Walras. Here, efficiency and equilibrium became measurable, laying the foundation for welfare economics. Yet, the ideal of perfect information and rational agents began to show theoretical limits as real-world imperfections became more visible.

The Industrial Organization phase symbolized by the factory icon represents the critical point where economists recognized that firms could shape market outcomes strategically. Jean Tirole’s work formalized how monopoly and monopsony behaviors emerge from structural features like entry barriers and pricing tactics. The rise of oligopoly theory, Cournot competition, and game-theoretic frameworks reflected a new understanding: market power is not accidental, but a result of deliberate strategic interactions. This stage shifted the analytical lens from equilibrium outcomes to firm conduct, marking a turning point in market power analysis.

The Information Economics era added a new layer of realism by integrating asymmetric information and bounded rationality into microeconomic theory. Icons of data and information in the figure reflect contributions from Joseph Stiglitz, George Akerlof, and Daniel Kahneman, who demonstrated that incomplete information and psychological biases systematically distort market outcomes. Under this paradigm, monopoly and monopsony were reinterpreted not just as structural outcomes, but as consequences of informational control and cognitive limitations. This perspective bridged economics with behavioral sciences and laid the groundwork for modern regulatory economics.

Finally, the Digital Market Power stage captures the transformation of global capitalism under platform-based dominance. The network icon at this stage represents how data control, algorithmic pricing, and network effects have generated hybrid forms of power where a single firm can simultaneously act as a monopoly over consumers and a monopsony over suppliers or gig workers. Scholars such as Philippon (2019) and Van Reenen (2020) show that this dual concentration of power characterizes the new digital economy. The final arrow signifies an open ended process

microeconomic theory continues to evolve as new challenges, from artificial intelligence to platform governance, reshape the contours of market power in the 21st century.

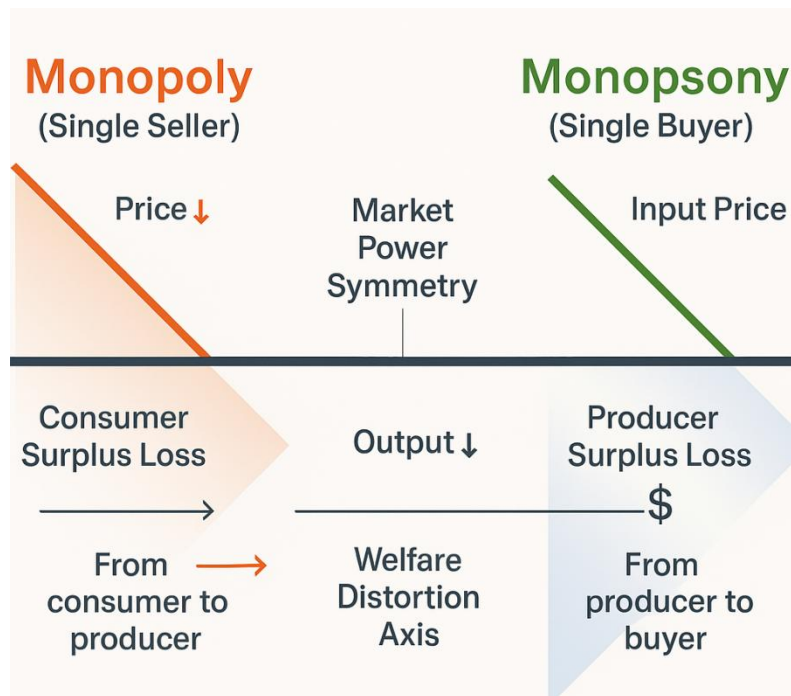


Figure 2. Symmetry of Monopoly and Monopsony

The diagram illustrates the theoretical symmetry between *monopoly* and *monopsony* as two mirror forms of market power that create welfare distortions through different market mechanisms. On the left side, the monopoly structure represents a situation where a single seller dominates the market, enabling them to raise prices above the competitive equilibrium while reducing total output. On the right, monopsony reflects the mirror image where a single buyer exerts power to depress input prices below equilibrium, also leading to reduced output. The central horizontal arrow indicates the theoretical equivalence between both structures, demonstrating that despite operating on opposite market sides, each yields a similar welfare loss through inefficient allocation of resources.

From a microeconomic perspective, the figure shows that both monopoly and monopsony distort the balance between marginal benefit and marginal cost. In monopoly, the marginal revenue curve lies below the demand curve, leading firms to restrict quantity until marginal revenue equals marginal cost, resulting in higher prices for consumers. Conversely, in monopsony, the marginal expenditure curve lies above the supply curve, causing buyers to limit input purchases until marginal expenditure equals marginal value, thereby lowering input prices for suppliers. These deviations from perfect competition produce *deadweight losses* areas of lost welfare that neither consumers nor producers can reclaim, as described by Perloff (2020) and Nicholson & Snyder (2016).

The diagram's vertical arrows emphasize how power asymmetry redistributes surplus within the market. In a monopoly, the firm captures a portion of the consumer surplus by increasing prices, transferring welfare from consumers to producers. In contrast, under monopsony, firms capture part of the producer surplus by reducing input prices, transferring welfare from suppliers or workers to buyers. Both mechanisms ultimately reduce total economic welfare, illustrating the Pareto inefficiency central to modern discussions of market failure (Varian, 2019; Stiglitz & Walsh, 2020). Thus, the symmetry highlights that the welfare implications of market power are not confined to one side of the market, but systemic across both product and factor markets.

Furthermore, the symmetry depicted reflects the duality observed in real-world market structures. For instance, large digital platforms such as Amazon and Uber simultaneously exhibit monopolistic traits toward consumers through pricing algorithms and network control and monopsonistic traits toward suppliers or gig workers through wage suppression and input dependence. The visual alignment between the two sides of the diagram captures this dual role, underscoring that modern market power often functions bi directionally. This insight aligns with the findings of

Manning (2021) and De Loecker et al. (2020), who describe how digital markets blur traditional boundaries between producer and buyer dominance.

In summary, this diagram not only presents the theoretical symmetry between monopoly and monopsony but also contextualizes their coexistence within modern economic systems. Both structures reflect how concentration and strategic control distort market efficiency, redistribute surplus, and challenge welfare optimization. By visually aligning their effects higher prices and reduced output on one side, lower input prices and reduced supply on the other the figure offers a clear conceptual model linking the two forms of market power under a unified analytical framework. This symmetrical relationship is essential for understanding the broader evolution of market power from classical equilibrium theory toward contemporary analyses of digital and global concentration.

Table 2. Empirical Comparison between Monopoly and Monopsony

Aspects	Monopoly (Single Seller)	Monopsony (Single Buyer)	Economic Implications
Market Side	Product market	Input or labor market	Reflects opposite sides of the same market structure seller vs. buyer dominance.
Market Power Mechanism	Control over output and product prices Price increases above equilibrium ($P_m > P_c$)	Control over input and factor prices Price decreases below equilibrium ($P_{ms} < P_c$)	Both distort equilibrium outcomes by manipulating price or quantity.
Price Effect	Output reduced below efficient level ($Q_m < Q_c$)	Input usage reduced below efficient level ($Q_{ms} < Q_c$)	edistribution of welfare consumers or workers bear the loss.
Quantity Effect	Producer surplus increases; consumer surplus decreases	Buyer surplus increases; producer (or worker) surplus decreases	Creates inefficiency and inequality in resource allocation.
Welfare Distribution	Google, Apple, Microsoft (digital product dominance)	Amazon, Uber, Walmart (labor and supplier dominance)	Demonstrates the rise of dual market power in the digital era.
Examples	Antitrust and competition law enforcement	Labor market and wage-setting regulation	Requires integrated policy to address both sides of market power.
Regulatory Focus	Rising mark-ups across global industries (De Loecker et al., 2020)	Wage suppression in concentrated labor markets (Manning, 2021)	Both forms contribute to stagnating wages and higher inequality.
Empirical Evidence			

The empirical comparison table highlights the dual manifestations of market power in modern economic systems. While monopoly and monopsony operate on opposite sides of the market one controlling product prices and the other influencing input prices both lead to similar welfare distortions. In a monopoly, the firm’s control over supply allows it to elevate prices above competitive levels, creating excess profits but reducing total consumer welfare. Conversely, monopsony occurs when a dominant buyer suppresses input prices, such as labor or raw materials, below their equilibrium levels, causing a redistribution of welfare away from producers or workers. This dual mechanism illustrates how market power can simultaneously erode efficiency and equity in different segments of the economy.

The table further demonstrates that both structures lead to a contraction of market activity. Under monopoly, output reduction results from the producer’s profit-maximizing behavior, where marginal revenue equals marginal cost at a lower quantity than in competitive markets. Under monopsony, buyers reduce their demand for inputs to equate marginal expenditure with marginal value, resulting in underemployment or underproduction. Empirical findings from Manning (2021) and De Loecker et al. (2020) confirm that these patterns occur not only in theory but also in labor and digital markets, where dominant firms influence both output and wage levels through algorithmic and data-driven control mechanisms.

From a welfare perspective, both monopoly and monopsony generate deadweight losses, represented in the table as areas of inefficiency and surplus transfer. In monopolistic settings, consumer surplus is partially converted into producer surplus, with a net loss to society due to reduced transactions. In monopsonistic conditions, producer surplus is transferred to buyers, often resulting in stagnant wages, reduced labor participation, or lower returns for small suppliers. These outcomes resonate with Varian's (2019) and Stiglitz and Walsh's (2020) frameworks, which interpret market power as a structural deviation from the Pareto-optimal allocation of resources, where total social welfare is maximized only under competitive equilibrium.

The table also captures the evolving empirical relevance of market power in the digital economy. Platforms such as Amazon and Uber embody both forms simultaneously: monopoly power in consumer markets through price and data control, and monopsony power in labor markets through gig-worker dependence and wage algorithms. This empirical reality, depicted in the table's final row, underscores that modern market concentration no longer fits into a single-dimensional model. Instead, it manifests through multi-sided dominance, where firms internalize both demand- and supply-side control, creating complex welfare implications that transcend traditional industrial organization theory.

Finally, the empirical comparison underscores the importance of balanced regulation to mitigate both monopoly and monopsony distortions. Traditional antitrust policies focusing solely on consumer pricing are inadequate in an economy where labor market concentration exerts equally harmful effects. Policymakers must therefore adopt dual-perspective approaches targeting both excessive product markups and input price suppression. The table's empirical synthesis reinforces the conclusion that welfare optimization in modern capitalism requires acknowledging the structural symmetry between monopoly and monopsony and addressing them through integrated competition and labor policies.

4. Discussion

4.1 Theoretical Evolution from Perfect Competition to Market Concentration

The historical trajectory of microeconomic theory reveals a continuous transformation from idealized assumptions of perfect competition toward a more realistic recognition of concentrated market structures. Early economic thought, rooted in Adam Smith's invisible hand principle, suggested that decentralized market interactions would naturally lead to optimal outcomes. However, as industrialization advanced, economists began to observe discrepancies between theoretical efficiency and actual market performance. The rise of large corporations in the twentieth century demonstrated that scale economies, information asymmetries, and technological advantages could systematically distort competitive balance. As Peltzman (2018) explains, the persistence of concentrated industries challenges the assumption that market forces alone can ensure efficiency, signaling the need for refined theoretical frameworks.

The neoclassical school refined this framework by formalizing consumer and producer behavior through utility and profit maximization. Yet, it continued to assume atomistic agents and perfect information, leading to what Stigler (2019) describes as a "theory of equilibrium divorced from power." The limitations of such models became apparent as economists observed persistent price-setting behavior inconsistent with competitive equilibrium. Empirical evidence from Syverson (2019) shows that firm-level heterogeneity and productivity differences often translate into market concentration, even without collusion. These findings marked a critical departure from static equilibrium analysis toward a dynamic understanding of firm behavior and structural dominance within industries.

By the late twentieth century, industrial organization theory reshaped microeconomics by introducing strategic interaction and entry barriers into the analysis of market outcomes. Scholars such as Bresnahan and Reiss (2015) emphasized that the number of competitors, market size, and fixed costs collectively determine the extent of competition. The evolution from price-taking models to strategic models represented not only a methodological shift but also an epistemological one—recognizing that markets are arenas of power rather than neutral allocative mechanisms. According to Cabral (2017), the firm's ability to influence market outcomes depends not only on its cost structure but also on its strategic behavior within a network of rivals and consumers, a departure from the neoclassical notion of passive equilibrium.

In contemporary microeconomic theory, the evolution toward analyzing *market power* is intertwined with the integration of information economics and behavioral insights. Stiglitz and Greenwald (2014) demonstrated that markets with imperfect information deviate systematically from Pareto efficiency, as informed agents can exploit asymmetries to gain rents. This recognition led to the modern conceptualization of *market failure* as a predictable outcome of real-world frictions. Complementary behavioral perspectives by Kahneman and Tversky (2017) show that

cognitive biases and bounded rationality exacerbate these inefficiencies, allowing dominant firms to sustain pricing advantages. The convergence of these theories highlights a paradigm shift: efficiency is not the default outcome of competition but a fragile condition threatened by concentration and information asymmetry.

The digital transformation of the global economy has intensified the relevance of this theoretical evolution. Autor et al. (2020) argue that technological change has amplified the returns to scale, enabling “superstar firms” to dominate both product and labor markets. These firms leverage data analytics and network effects to establish self-reinforcing monopolistic and monopsonistic structures. The traditional distinction between producers and consumers becomes blurred as digital platforms internalize multiple market roles. De Loecker and Eeckhout (2020) further demonstrate that average mark-ups have increased significantly since the 2000s, signaling a structural shift toward market power as a defining feature of modern capitalism. Hence, market concentration is no longer an exception but a systemic outcome of technological and organizational evolution.

In summary, the theoretical evolution from perfect competition to market concentration underscores a profound shift in how economists conceptualize efficiency, power, and welfare. The movement from equilibrium-based analysis to dynamic structural modeling reflects an acknowledgment that real markets are governed by asymmetries of scale, information, and strategy. As Philippon (2019) asserts, contemporary capitalism is characterized not by market failure per se, but by the success of firms in exploiting structural advantages to entrench dominance. Thus, understanding this evolution is crucial for framing subsequent discussions of monopoly and monopsony as integral, rather than peripheral, components of modern economic theory.

4.2 Structural Mechanisms of Monopoly and Monopsony

The structure of market power, as reflected in monopoly and monopsony, originates from institutional and strategic mechanisms that enable certain agents to dominate either the demand or supply side of the market. Monopoly arises when a single firm gains sufficient control over output or technology to influence market prices, while monopsony emerges when a single buyer or employer exerts control over input prices, particularly labor or raw materials. Both forms represent asymmetric market structures in which one party dictates transactional terms. As Motta (2021) explains, market power is sustained not only by firm size but by the capacity to create entry barriers, manipulate information, and leverage strategic interactions. The structural basis of both phenomena underscores that concentration, rather than competition, defines the behavior of modern markets.

From a theoretical standpoint, monopolistic and monopsonistic power are mirror mechanisms of price distortion within imperfect competition. In monopoly, firms maximize profit by equating marginal revenue (MR) to marginal cost (MC), producing less than the socially optimal quantity and charging a higher price. Conversely, monopsony occurs when the buyer equates marginal expenditure (ME) to marginal value (MV), purchasing less input at a lower price. Both outcomes reduce total welfare through the loss of mutually beneficial exchanges. According to Inderst and Wey (2017), this symmetry reveals that market power can distort efficiency from either side producers or buyers depending on who holds strategic control. This structural duality becomes especially relevant in vertically integrated industries, where firms simultaneously exert both monopoly and monopsony power across linked markets.

Empirical research supports this theoretical symmetry. Azar, Marinescu, and Steinbaum (2022) demonstrate that labor market concentration in the United States has allowed dominant employers to suppress wages by an average of 17% compared to competitive benchmarks. Similar dynamics occur in product markets, where firms such as Apple and Google use their platform dominance to impose restrictive pricing and access conditions on smaller competitors. As Covarrubias, Gutiérrez, and Philippon (2019) note, these concentration effects are amplified by technological advantages and network externalities, producing a feedback loop that reinforces dominance. Thus, the mechanisms of market power are increasingly characterized by interdependence between monopoly and monopsony two sides of a single strategic equilibrium shaped by scale and information control.

The structural mechanism of market dominance is further reinforced through strategic barriers to entry. Schmalz and Posner (2018) emphasize that market incumbents deploy vertical integration, mergers, and exclusive contracts to limit new entrants and sustain profit margins. These mechanisms operate in both directions: monopolies protect their product dominance, while monopsonies restrict supplier or labor alternatives. Such strategies transform short-term market imperfections into long-term institutionalized dominance. In global supply chains, for instance, large retailers exert monopsonistic control over suppliers, determining procurement prices and standards, while simultaneously maintaining monopolistic power in retail pricing. This dual structure reflects a coordinated exploitation of both ends of the value chain, an increasingly common characteristic of modern conglomerates.

The digital economy has introduced new structural mechanisms that intensify the coexistence of monopoly and monopsony power. According to Dube, Naidu, and Reich (2020), algorithmic management and data analytics allow digital platforms to dynamically set prices and wages, optimizing both consumer demand and labor costs in real time. These mechanisms blur traditional boundaries between producer and buyer markets, creating hybrid structures of dominance. For example, Amazon controls product pricing (monopoly) while dictating labor terms in its warehouses and delivery networks (monopsony). Similarly, Uber's algorithmic wage-setting enables it to act as both market-maker and employer. The fusion of data-driven pricing with labor management underscores how digitalization strengthens market asymmetries through informational superiority.

In conclusion, the structural mechanisms underlying monopoly and monopsony are interlinked through strategic, institutional, and technological dimensions. Their coexistence reflects a fundamental transformation in how firms accumulate and sustain power no longer through simple price manipulation, but through network control, platform design, and data asymmetry. As Aghion, Bergeaud, and Van Reenen (2021) assert, the convergence of these mechanisms has blurred the line between firm strategy and market structure, demanding new theoretical and regulatory paradigms. Understanding these mechanisms provides the analytical foundation for evaluating how modern market power evolves beyond classical frameworks, integrating both product and input markets into a unified theory of concentrated capitalism.

4.3 Welfare and Efficiency Implications of Market Power

Market power, whether expressed through monopoly or monopsony, has profound implications for welfare and allocative efficiency. The central insight from modern welfare economics is that both structures generate deadweight losses, reflecting a divergence between private incentives and social optima. In a monopoly, the reduction in output below competitive equilibrium leads to higher prices and lower consumer welfare; conversely, monopsony results in lower input prices and reduced supplier or worker welfare. The fundamental inefficiency stems from the restriction of mutually beneficial exchanges. As Weyl and Fabinger (2016) emphasize, these distortions are not mere pricing anomalies but structural inefficiencies that undermine total welfare by transferring surplus from one market side to another without generating additional value.

Quantitatively, welfare losses under monopoly and monopsony can be represented by the areas of unexploited surplus on standard supply and demand diagrams. The theoretical equivalence between these losses is demonstrated through marginal analysis, where monopolists reduce output to equate marginal revenue (MR) with marginal cost (MC), and monopsonists reduce input demand until marginal expenditure (ME) equals marginal value (MV). This symmetry leads to similar welfare effects: reduced trade volume, inefficient pricing, and a decline in total economic surplus. Empirical evidence by Hall (2018) and Gutiérrez and Philippon (2017) indicates that aggregate mark-ups across U.S. industries have risen by over 50% since 1980, correlating with a decline in labor's share of income—a clear signal of rising deadweight losses distributed asymmetrically across market participants.

The redistributive nature of market power intensifies inequality in both product and labor markets. Under monopoly, consumers bear the cost of higher prices and limited choices, while producers capture excess profits. Under monopsony, the opposite occurs: firms capture welfare at the expense of suppliers and workers through wage suppression or procurement pressure. A study by Berger, Herkenhoff, and Mongey (2019) found that monopsony power explains nearly one-third of the stagnation in real wages across advanced economies. Meanwhile, monopolistic dominance by large digital platforms has contributed to growing profit concentration. As Autor et al. (2020) and Grullon, Larkin, and Michaely (2019) note, such dynamics have shifted wealth from labor to capital, reinforcing structural inequality—a pattern that mirrors the classical concept of welfare loss but now embedded within global digital capitalism.

The efficiency implications extend beyond simple price distortions to dynamic inefficiencies related to innovation and resource allocation. Aghion et al. (2021) argue that while temporary market power can stimulate innovation by allowing firms to capture returns on R&D investment, excessive concentration suppresses competition and discourages creative destruction. In monopsonistic contexts, low input prices and weak bargaining power discourage innovation among suppliers and reduce incentives for skill development among workers. This dual inefficiency has macroeconomic consequences, as documented by Edmond, Midrigan, and Xu (2023), who demonstrate that rising market power contributes to declining aggregate productivity and slower technological diffusion. Consequently, welfare loss manifests not only in static efficiency terms but also in the economy's long-term growth potential.

Another crucial dimension is the interaction between market power and social welfare policy. As Stiglitz (2019) explains, when markets become structurally concentrated, traditional redistribution policies (e.g., taxation and

subsidies) are insufficient to correct welfare losses, because the inefficiencies are embedded in the pricing mechanism itself. This is particularly evident in digital economies, where algorithmic pricing reinforces discriminatory practices and price differentiation, amplifying welfare disparities. Similarly, monopsonistic wage-setting mechanisms perpetuate labor market frictions that conventional policy tools fail to address. Hence, welfare economics must expand its analytical scope beyond efficiency to include institutional mechanisms that perpetuate inequality.

Ultimately, the welfare and efficiency implications of market power illustrate a fundamental transformation in how modern economies function. Monopoly and monopsony are not transient market imperfections but enduring structures that redistribute welfare across society. The dual nature of these distortions overpricing in product markets and underpricing in labor or input markets creates a systemic imbalance that constrains both consumption and production. As Eeckhout (2021) argues, addressing welfare loss requires rethinking competition policy through the lens of social welfare rather than mere price efficiency. Understanding these implications provides a theoretical bridge between classical welfare economics and the realities of 21st-century market concentration, where efficiency and equity have become inseparable dimensions of policy concern.

4.4. Market Power in the Digital and Global Economy

The emergence of the digital economy has redefined traditional boundaries of market power, transforming how monopoly and monopsony operate on a global scale. In digital markets, the central driver of dominance is not merely control over physical production or distribution, but control over data, algorithms, and user networks. Firms like Google, Amazon, and Meta derive their power from *network effects*—where the value of their platforms increases as more users participate—leading to a self-reinforcing concentration of market share. As Khan (2018) argues, these digital giants exemplify a new form of market power that transcends classical price-setting behavior by creating *ecosystem monopolies*. Unlike traditional monopolists who restrict output, digital monopolists expand user reach while deepening dependency through data control and personalized pricing strategies.

This evolution of market power has also intensified monopsonistic tendencies within labor and supplier markets. Digital platforms often operate as intermediaries that simultaneously set terms for both buyers and sellers, allowing them to suppress wages or procurement prices through algorithmic control. Dube et al. (2020) observe that gig-economy platforms like Uber and Deliveroo exercise monopsonistic power by exploiting information asymmetries and reducing labor mobility. These firms use algorithmic wage determination and data-based performance monitoring to manage worker behavior, replicating the traditional monopsonist's control over input markets. The fusion of monopoly and monopsony within a single digital entity represents what Azar and Marinescu (2023) describe as *dual market power*—a defining feature of the contemporary platform economy.

At the global level, the digital transformation has magnified concentration effects beyond national boundaries. As Philippon (2019) and Furman and Orszag (2021) note, global digital firms possess capital, technology, and regulatory arbitrage advantages that allow them to outcompete smaller domestic players. These asymmetries create global spillovers, where national competition policies become insufficient to constrain multinational dominance. In developing economies, including Indonesia, market concentration manifests through the dependency of small and medium enterprises (SMEs) on digital intermediaries for market access. This dependency reinforces monopsonistic relationships, as large platforms dictate pricing algorithms and visibility parameters, shaping competitive outcomes through opaque digital governance systems.

The concentration of digital market power has also reshaped innovation incentives. On the one hand, large technology firms invest heavily in research and development (R&D), contributing to rapid technological progress. On the other, they often engage in *killer acquisitions*—buying emerging competitors to neutralize future threats. According to Cunningham, Ederer, and Ma (2021), over 50% of technology-sector mergers between 2010 and 2018 involved incumbents acquiring startups with overlapping innovation domains. This behavior, though seemingly pro-innovative, consolidates control over technological trajectories and limits market diversity. The result is a paradoxical equilibrium where innovation occurs within, but not against, dominant firms—reinforcing their monopolistic position rather than promoting creative destruction.

Furthermore, the global nature of digital monopolies raises complex challenges for welfare and policy coordination. Digital firms' ability to operate across jurisdictions allows them to exploit regulatory gaps, tax arbitrage, and data sovereignty loopholes. Zuboff (2019) refers to this as *surveillance capitalism*, in which data extraction and behavioral manipulation become mechanisms of economic and political control. In this context, welfare implications extend beyond traditional efficiency concerns to include privacy, autonomy, and democratic accountability. The asymmetric

access to data grants digital firms both informational and behavioral power, leading to welfare losses not only in consumption but in civic and institutional dimensions of society.

In conclusion, the digital and global economy represents the new frontier of market power, where the mechanisms of monopoly and monopsony converge under data-driven capitalism. Unlike the industrial monopolies of the 20th century, digital monopolists derive their strength from control over information rather than production. The interplay between global scale, technological dependence, and informational asymmetry has created a structurally embedded concentration that transcends national policy tools. As Coyle (2021) asserts, addressing these challenges requires redefining competition and antitrust policy in the context of digital intermediation and cross-border network effects. Understanding digital market power is thus essential not only for refining microeconomic theory but also for safeguarding equitable and efficient global markets.

4.5. Policy and Regulatory Challenges in Addressing Dual Market Power

The rise of dual market power where firms act as both monopolies in consumer markets and monopsonies in input or labor markets poses profound challenges for policymakers and competition authorities worldwide. Traditional antitrust frameworks, built around price-fixing and output restriction, struggle to capture the complexities of digital-era dominance. According to Posner (2021), classical antitrust law was designed for industrial economies characterized by tangible goods and well-defined markets, not digital ecosystems where control stems from data, algorithms, and multi-sided network effects. Consequently, regulatory mechanisms rooted in twentieth-century principles are increasingly ineffective in addressing the strategic behavior of technology conglomerates that dominate both sides of the market simultaneously.

The difficulty in addressing dual market power also stems from the blurred boundary between consumer and producer welfare. Historically, antitrust enforcement has prioritized consumer surplus ensuring lower prices and greater choice as the primary metric of success. However, in modern digital markets, monopoly and monopsony effects often coexist, producing trade-offs between consumer benefits and labor or supplier exploitation. As Hemphill and Rose (2018) argue, focusing solely on consumer prices neglects the systemic wage suppression and input underpricing that characterize monopsonistic dynamics. The challenge, therefore, is to design competition policies that balance both producer and consumer welfare in a holistic manner, recognizing that market efficiency cannot be sustained when one side of the transaction remains structurally disadvantaged.

Regulatory fragmentation across jurisdictions further complicates policy effectiveness. While the European Union has adopted a more proactive approach through the Digital Markets Act (DMA) and Digital Services Act (DSA), emphasizing fairness and contestability, other regions including many developing economies lack equivalent institutional capacity. Ghosh (2022) observes that global digital firms exploit these asymmetries through regulatory arbitrage, structuring operations to minimize oversight while maximizing dominance. In Indonesia, for instance, regulatory frameworks for digital platforms remain fragmented across trade, communication, and competition agencies, creating enforcement gaps. This fragmentation underscores the necessity for international coordination and updated legal doctrines that reflect cross-border digital interdependence.

Another major challenge lies in the measurement and identification of market power in the digital era. Traditional indicators such as price-cost margins or Herfindahl-Hirschman Index (HHI) fail to capture non-price dimensions of dominance such as control over data, algorithms, and user attention. As Scott Morton and Dinielli (2020) note, digital monopolists often provide services at zero monetary cost, masking their extraction of consumer value through data monetization. Similarly, digital monopsonists suppress wages or contract prices through algorithmic opacity rather than explicit collusion. Effective regulation thus requires a shift toward multidimensional assessment tools that integrate behavioral economics, data governance, and algorithmic transparency to identify power imbalances beyond conventional price-based measures.

Emerging policy discourse increasingly advocates for *inclusive competition policy*—a paradigm that integrates labor rights, innovation incentives, and equity considerations into antitrust enforcement. According to Ezrachi and Stucke (2020), the goal is no longer merely to maximize efficiency, but to promote democratic accountability and market plurality. This approach aligns with the arguments of Theodoropoulou (2022), who emphasizes that regulating monopsony power in labor markets must become as central to policy as combating monopoly power in product markets. Several countries have begun implementing these principles: the U.S. Federal Trade Commission (FTC) under Lina Khan has reinvigorated enforcement against both buyer and seller dominance, signaling a paradigm shift toward dual-side regulation.

In conclusion, addressing dual market power requires a comprehensive rethinking of competition and industrial policy frameworks. Effective regulation must bridge antitrust law with labor governance, data protection, and innovation policy to reflect the structural realities of the digital economy. As Wu (2021) aptly describes, modern capitalism is defined by *information feudalism*—where control over data and platform access replaces control over land and capital as the foundation of power. Overcoming this concentration demands not only legal reform but also interdisciplinary coordination between economists, technologists, and policymakers. Without such systemic reform, monopoly and monopsony will continue to reinforce each other, deepening inequality and undermining the welfare foundations of global economic stability.

5. Conclusion

The evolution of microeconomic theory from perfect competition toward market concentration reveals a fundamental shift in the understanding of efficiency, power, and welfare. Early economic thought, grounded in classical equilibrium models, viewed markets as self-correcting systems that naturally achieved optimal outcomes. However, modern theory recognizes that structural asymmetries, informational frictions, and strategic behaviors have transformed this equilibrium into one dominated by market power. Monopoly and monopsony emerge not as deviations from competition, but as structural realities that define the operation of contemporary capitalism.

The analysis demonstrates that monopoly and monopsony are symmetrical manifestations of market distortion operating on different sides of the exchange relationship. Both reduce total welfare by restricting mutually beneficial transactions: monopolies through high output prices and monopsonies through low input prices. This symmetry underscores the importance of understanding market power as a systemic rather than isolated phenomenon. Its persistence across industries reflects the interplay between scale economies, information asymmetry, and strategic control mechanisms that sustain dominance.

Empirical evidence further supports the argument that increasing market concentration has contributed to rising inequality and declining labor share. Digital platforms, in particular, exemplify the convergence of monopoly and monopsony power, as they simultaneously influence consumer prices, supplier payments, and labor conditions. Their dominance is sustained by data-driven feedback loops, network effects, and algorithmic management systems that reshape traditional market relationships.

The welfare consequences of this transformation are multifaceted, encompassing static inefficiencies, reduced innovation, and growing disparities in wealth and opportunity. As efficiency and equity become increasingly intertwined, traditional policy frameworks focusing narrowly on consumer welfare are inadequate. Effective regulation must account for both sides of market power: protecting consumers from monopolistic pricing and workers or suppliers from monopsonistic exploitation.

In sum, the evolution of market power theory highlights the need for a new synthesis in microeconomic thought—one that integrates classical insights with digital-era realities. The coexistence of monopoly and monopsony reflects a structural shift from competitive to concentrated capitalism. Addressing these dual distortions requires an adaptive theoretical framework and coordinated policy response that balance innovation, competition, and social welfare in a globalized, data-driven economy.

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