Examining perfectly competitive and monopoly and oligopoly

For the cause of enlarging our knowledge of Economics, we did this assignment. There are three main parts in it. They are Perfectly competitive, Monopoly and Oligopoly, which are really important in Economics. But not simple to learn in Economics study. The questions need us to draw graphs and use calculations for them. These questions would help us have a better understanding of them.

Finding:

1. A number of markets are developing on the Internet. One of those market is eBay. Check out eBay at www. eBay. com and explain whether you believe that the eBay Internet auction market is perfectly competitive. Be sure to explain which of the six conditions of a perfectly competitive market are met and how.

A: eBay is an online auction Website. Consumers use the Internet to research the goods they desire, then they look for bargains of the same products on eBay. If the products are available, a bid is entered and the winner of the auction eventually pays with her credit card. In addition to regular mail, vendors also use express-mail service to send the purchases to buyers if they choose that option. eBay is different from Amazon. com, another popular e-commerce Website, in that prices on eBay are set by the negotiation between bidders and sellers, whereas Amazon. com’s prices are mostly determined by sellers. It is likely to Taobao, which is a well-known shopping website in China. (http://baike. baidu. com/view/7777. html? wtp= tt, 2010)

I believe that the eBay Internet auction market is perfectly competitive. Because it possess these four characteristics:

” There must be many and sellers in the market, none of whom is large enough to influence price.” eBay have kinds of sellers to satisfied distinct demands in goods of consumers. No big firms control small firms.

“ There is freedom of entry to and exit from the industry. Firms must be able to establish themselves in the industry easily and quickly. ” eBay sellers can entry and exit the business depend on their wishes.

” Buyers and sellers posses perfect knowledge of prices.” They know the market and price well. They gain lots of information about that.

” All firms produce a homogeneous product.” For example, there are many sellers in eBay have the same product, you can choose one base on service or else. ¼ˆMarcouse, 2008)

“ Perfect competition requires that the following six conditions be fulfilled. In such a market, prices would normally move instantaneously to economic equilibrium.”

Atomicity

An atomistic market have small producers and consumers on a given market, so that its actions have no important impact on others. Firms are price takers, which means that the market decide the price that they must choose.

Homogeneity

Goods and services can substitute perfectly, so all firms sell the same product. There is no difference.

Perfect and complete information

All firms and consumers understand the prices decide by the whole firms.

Equal access

All firms have entryed to production technology. If they wanted, they could free to entry or leave.

Individual buyers and sellers act independently

The market cannot have scope for buyers or sellers get together to have a overall view about the market price. (http://www. statemaster. com/encyclopedia/Perfect-competition#Requirements, 2010)

Draw marginal revenue¼Œmarginal cost and average total cost curves for a typical perfectly competitive firm and indicate the profit-maximising level of output and total profit or loss for that firm. Is the firm in long-run equilibrium? Why or why not?

Figure1

This is a typical perfectly competitive firm firm graph. It is loss.

Figure 2

Yes. It is long-run equilibrium. Because there is a point that LRAC line, ATC line, MC line and MR line intersect.

The United States Federal Communications Commission (FCC) regulates interstate and international communications, including merger activity within industry. Go to the FCC website at www. fcc. gov and search communication companies and answer the following questions:

What reasons do consumers and producers have for opposing the merger?

What reasons do consumers and producers have for supporting the merger?

Does the theory of a monopolist discussed in class and the textbook support the reasons stated in your answers to a and b?

A: a).

1.” A monopolist charges a higher price and produces less output than a perfectly competitive firm.”

2. Consumers have less choice, because one product only be produced bu one firm.

3.” High barriers to entry means other firms cannot enter the market.”

4. Governments can earn heavily tax through monopolies.

5.” Governments can nationalise the monopoly (make it public) and therefore can keep prices ‘ too high’. “

6. Government can decline entry barriers (which is not good for the monopolistic firm).

7.” The economy may suffer as less consumer spending may happen because of high prices charged by monopolistic firms.”

8.” Exploitation of consumer – price discrimination”

9.” Potential for inefficiency – complacency over controls on production”

10.” costs because there is no competition”

11.” May lack motivation and innovation because there is no competition”

To sum up, these 11 disadvantages of monopoly. Consumers and producers have for opposing the merger for their own profit.

(Marcouse, 2008)

b). 1.” A monopoly may produce at a lower cost than a competitive industry. This is due to economies of scale, which a monopoly is able to exploit more than a competitive firm, as the monopoly is the sole provider of that good. “

“ The ability to set prices at a higher level in order to gain an abnormal profit. However, monopolistic firms are not simply able to charge a price they deem fit for the product, since it is constrained by its demand curve. A higher price will result in a fall in demand, and that may subsequently lead to a fall in revenue (depending on elasticity). “

The majority of monopolies are belonging to government, so tax will be higher. It can give more money to perfect public goods.

“ Consumers may like price discrimination as it could be in their favour.”

“ There can be more control and stability in an industry if a monopoly is present. “

If it is a natural monopoly, it would be suitable an necessary.

“ Encourages spending on R&D which may create better products.”

“ Some products and services are not likely to be produced without some guarantee of monopoly protection.”

“ Economies of scale can be gained – consumer may benefit from a lower cost”

In conclusion, consumers and producers supporting it, because of these several advantages.

c). In general, I think monopolist discussed in class and textbook support the reasons stated in my answers to a.

Because from a and b we can know disadvantages of monopoly are greater than advantages. “ It harms consumers through charging a higher price and producing a lower quantity than would be the case in a perfectly competitive situation.” And a monopolist is inefficient because resources are under distributed to the production of its product.

(Smith, 2010¼‰

Draw demand, marginal revenue, marginal cost and average total cost curves for a typical monopolistic firm and indicate the profit-maximising level of output and total profit or loss for that firm. Is the firm in long-run equilibrium? Why or why not? How does the profit-maximising position differ from that of a perfectly competitive firm?

A: This is a typical monolistic graph. It is a loss.

Monopolist can make a profit in the long-run. ” If the position of a monopolist’s demand and cost curves give it a profit and nothing disturbs these curves, it can make a profit in long-run. But there is no need to distinguish between the short run and long run for a monopolist.

—- a monopolist can make a profit in the short run and long run.

—- it can make a loss in the short run and long run.”

¼ˆSmith, 2010¼‰

From these two graphs we can see, the Demand and Marginal cost curves of the monopolist are downward sloping. In perfect competition they are horizontal. But the maximizes profits point are the same, when MC= MR. (graphs from Smith’s PPT, 2010)

Oligopoly

The organization of the Petroleum Exporting Countries (OPEC) is an international cartel. Go to its home page at www. opec. org to answer the following questions:

What are OPEC’s objectives of OPFC? How does it meet those objectives?

What countries are members of OPEC? What percentage of world oil production comes from these nations? In what way is OPEC a cartel?

What significant oil-exporting countries are not members? What has OPEC done to limit the effect of nonmember production on its own pricing decisions?

A: a)1.” In accordance with its Statute, the mission of the Organization of the Petroleum Exporting Countries (OPEC) is to coordinate and unify the petroleum policies of its Member Countries and ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital for those investing in the petroleum industry.”” OPEC’s objective is to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry.

“ In a word, OPEC organization is assorting with members’ oil policy, and unify them. Then decide to use the most suitable way to protect their own or personally benefit. (http://www. opec. org/opec_web/en/about_us/23. htm, http://www. opec. org/opec_web/en/about_us/24. htm,

http://baike. baidu. com/view/24477. htm? fr= ala0_1, 2010)

(1)The member countries’ delegates of OPEC in the OPEC meeting seek unity of oil policy. And contribute to prosper the oil market.

These countries aim at the international situation and marketing trends of oil. They have a discussion and analysis to decide the increasing rate of economics. And also control the demand and supply of oil. (http://baike. baidu. com/view/24477. htm? fr= ala0_1, 2010)

b) 1. Angola, Algeria, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, Venezuela and the United Arab Emirates.

OPEC nations still have 2/3 of the world’s oil reserves. In April 2009, 33. 3% of the world’s oil production, affording them lots of controlling in the global market. “ The next largest group of producers, members of the OECD and the Post-Soviet states produced only 23. 8% and 14. 8%, respectively, of the world’s total oil production.”” Since 2009, OPEC has ordered a production ceiling of 24. 84 million barrels per day. At the end of 2008, OPEC had twice reduced the output quota by a total of 4. 2 million barrels to 24. 8 million barrels per day.” In 1996, the members’ countries have 76. 6% of oil, 69. 7% in 2007. (http://en. wikipedia. org/wiki/OPEC, http://www. hxen. com/englishnews/world/2010-03-18/103865. html, http://www. qqkqw. com/html/cyclopedia/ziyuanzhanlve/ziyuanxingshi/2010/02/23/152105199. html, 2010)

Definition: 1″Cartel is a group of firms formally agreeing to control the price and output of a product.”(Smith , 2010)

“ In some markets, producing firms or producing countries band together, usually to restrict supply; this allows them to raise prices and increase their profits or revenues; the best known cartel is OPEC which restricts the supply of oil onto world world markets.”

“ OPEC countries, with less than half of current world output but with most of the world’s oil reserves, manipulate the price of oil by restricting supply.”

Overall, these evidence proves that OPEC did act as a cartel.”(Marcouse, http://en. wikipedia. org/wiki/OPEC#Economics, 2010)

c). 1. The oil-exporting countries which are not memebers also produced great amount. For example, Russia have the second oil produced in barrels per day, just less than Saudi Arabia, 9, 810, 000 bbl a day in 2009. United States are the third, 8, 514, 00 bbl a day in 2008. China is the fourth, which is 3, 795, 000 per day in 2008. (https://www. cia. gov/liabrary/publications/the-world-factbook/rankorder/2173rank. html, 2008)

2. OPEC cannot control the international oil market.

Draw demand, marginal revenue, marginal cost and average total cost curves for a typical oligopolistic firm and indicate the profit-maximising level of output and total profit or loss for that firm. Explain why prices are stable or “ sticky” in this model. What are the characteristics of oligopoly?

This is a typical oligopolistic firm. The graph shows total profit.

A:

1.” No incentive for price increases; Total Revenue will fall

No incentive for price decreases; Total Revenue will fall”

2. Mutual interdependence is a main characteristic of oligopoly and it may cause prices to be sticky. The market price incline to remain stable, or rigid, at the kink in the demand curve.

3.” To maximize profits, oligopolistic firms operate where MR = MC.

Because of the kinked demand curve, there is a range of MC curves which equal MR at the same price: price rigidity.”(Smith, 2010)

1.” Industry dominated by small number of large firms, but many firms may make up the industry; mutual interdependence among the large firms

High barriers to entry

Products could be highly differentiated – each large firm producing a branded product

Non-price competition(e. g 4 P’s)

Price stability within the market-kinked demand curve

Knowledge of market is not perfect, but there is potential for collusion among firms “(Smith, 2010)