

Oligopoly and monopoly market structures

[Finance](#), [Market](#)



The oligopoly market structure is perhaps the most prevalent type anywhere in the world and hence deserves a careful study. Among the most well known forms of oligopoly are in the automobile industry and Ford Motor Company falls into this category and hence for the purpose of this paper the company would serve as a good example. Ford Motor Company has been one of the very few prominent automobile manufacturers in the oligopoly market structure and hence has to compete with only a few firms in a common understanding or unofficial agreement which in economic term means “conscious parallelism”.

In other words, the Ford Motor Company has an enviable position to control prices as it being the leader of the market where few firms compete to control the market. This is more so for the market of automobile in the US cannot accommodate firms above a certain numbers and hence those few try to control the market by keeping the price of the automobiles almost fixed so as to maximize profits. Of course such a dominant role by the firm between the periods from 1913s to 1920s it was however taken over by the General Motors after having competed with Ford closely (Rosenbaum 109).

The Ford Motor Company has cost structures that are both fixed and variable. For example the land, building, plant and power are fixed cost in the short run although they may vary in the long run. Whereas the steel inputs, cost of raw materials of components, and labor cost in the short run itself. The economies of scale both in mass production of vehicles as well as economies of scale in promotion yielded maximum profits to the firm during boom time as the Ford Motor Company was able to distribute its cost over a larger number of units.

But this lasted only for the short period of time as when more manufacturers entered the scene it had to curtail its own production to keep the price steady and on the other hand has to distribute its cost over a smaller number of vehicle manufactured and thereby reducing its margin significantly. The second market structure which this paper discusses relates to monopoly. A monopoly signifies a single seller of a product and for which there is no competition from other manufacturers.

The Exxon Mobil is a fine example of a monopoly as it is the largest oil and gas majors in USA and the one of the six largest of the world. In case of Exxon Mobil the economies of scale in production of oil is so huge that the unit cost of oil is very minimal and comparatively its prices are controlled to enable it to maximize profits. In fact there is hardly any firm in US which can take the same comparative advantage as that of Exxon Mobil where the marginal revenue equals marginal costs and the price is kept significantly on the higher side whereby increasing its profit multifold.

The opponents of monopoly are concerned by the way that one single company alone controls the whole market as there have been several cases of abuses as well as their influence in politics (Nixon 326). Similarly, the formation of Trust has also raised questions in lieu of the disappointment in the formation of Trust and that some control must be made by the government to regulate the market in USA (Jones 542). In case of Exxon Mobil the fixed cost may remain fixed both in the short and the medium term due to complacency factors although there might be certain modernization in the long run on the buildings and rigs.

Since, the demand for oil may not be less in spite of other substitutes the company may not suffer the same deadweight loss like the other monopolies. As for profits it is likely to reap in great deal of profits both in the short term as well as long term although there has been slight dip in the sale of oil for a few months due to recession. The only thing that the company ought to be aware of is that the state of complacency may set in if it does not try to keep itself in a competitive mode that is the characteristics of a monopoly business leading to its downfall in the long run.

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