

# Reflection essay on market structure

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



Four basic types of market structures are: 1- Perfect competition 2- Monopolistic competition 3- Oligopoly 4- Monopoly There is also another market structure called Monopoly. 1- Perfect competition It is considered more theoretical than practical, because it is very rare. In perfect competition a large number of firms sell identical products, where none of them has pricing power. There are no barriers or very easy to enter to the market by any new firm. Prices. For example if we go to normal retail shops to buy vegetables, we will get at same prices from each and every shop.

Fish market at Male' is a very good and a simple example, where inside the market lot of sellers will be selling same fishes. Prices will be set by the demand and supply. Neither buyer nor seller sets the price. It is more like automated pricing. Characteristics of perfect competition include large number of small firms, identical products, perfect resource mobility and perfect knowledge. 2- Monopolistic competition It is almost like perfect competition where large number of small firms sell similar but not identical products. Relative freedom of entry, to and exit from the industry.

It means buyers will have substitutes to choose from. Alternatives to buy for fulfill their needs and wants. Examples of industries structures as monopolistic competition includes, clothing industry, restaurants, and shoes and so on. 3- Oligopoly It is a market situation where products are supplied by small number of firms where each of them has influence over pricing and supplies which directly affects the position of the competitors. In oligopoly there is a special case where there is only two producers are called Duopoly. 4- Monopoly This is a market structure where only one producer in a market who has to the total control.

Buyers do not have substitutes and have no choice. They have total control over supply and prices. In this market structure, seller is always happy and consumers suffer. They take more profit with a huge marginal value from the products. Characteristics of monopoly includes single seller, unique product, barriers to entry and specialized information. The fifth type of market structure which is not included in basic structures is Monopoly. It is upside down of a monopoly where there is only one buyer. If we relate to a Mammalian context, government is the only buyer for the explosives and guns. Where there may be many sellers.

Exhibit 1

	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
Number of Sellers	Many	Few	One	One
Barriers to Entry	Very Low	Low	Very High	Very High
Type of Substitute Products	Very good	Good substitutes but differentiated	Very good differentiated substitutes	No good substitutes
Nature of competition	Price only	Marketing, features and price	Advertising	Pricing
Power	None	Little	Little to significant	Significant

As mentioned above, from 1988 to 2005 telecommunication industry of Maldives was a monopoly market. The following will elaborate how it was a monopoly and what was the situation during the monopoly. 1988-2005 Draught monopoly in Maldives. It was history that people used to call Draught as " Blood Suckers". When the company started in the Maldives in Maldives there was a telecommunication service by cable and wireless which uses USB set to communicate between the islands. After their establishment as one and only telecoms service provider in 1988 they brought a major upgrade to their network in 1989 in Male and introduced paging service in the Maldives. They also introduced

internet service for the very first time in Maldives in 1996 followed by mobile phone service in 1997 which was upgraded to GSM in 1999.

Being the only company to provide the service and major share controlled by the government of the Maldives, they introduced services at a huge marginal value. Consumers have no substitution in the market, which lead Draught to grow up and cake huge profit and extended its service to nationwide, while charging extraordinary high charges to cover its expansion costs and making more profit. It is usual to charge more from the consumers in monopoly market structure. In monopoly, always seller is always happy and consumers are unhappy.

Some pros and cons of monopoly are: Advantages Disadvantages Large capital scale benefit to the company More money to invest on development Earning national export revenues Pricediscrimination between consumers Very high market share Restricts production potential Do not actively pursue new clients Poor product quality Unfair wealth distribution Entry barrier for new comers When Waiting telecoms Maldives (presently called Ordered) started their service officially in Maldives on 1st August 2005 shortly after they were licensed on 1st of February 2005, the market structure changed to an oligopoly.

Oligopoly In economics oligopoly means that there are few sellers of a certain product in a market. Usually these sellers are always in a high competition with each other. In this type of markets sellers knows very well about their competitors. They have a high power to in pushing their products to the consumers. When on seller makes a change, it will directly affect other

sellers. There is a special case in oligopoly which is called duopoly. Which is when there is only two sellers in the market. Here are some advantages and disadvantages of oligopoly.

Advantages Lot of control Ability to fix prices Competitive pricing More profit making Perfect knowledge of the market Price controlling will be a disadvantage for consumers Creative ideas may fail to materialize Difficult for small firms to establish in the market Not much of competition No fair wealth distribution Oligopoly in Maldives telecoms industry From 2005 Ordered became the major and the only competitor to Draught. As usual they have initiated their business with a huge investment to make existence of their network across the Maldives.

It was a huge challenge for them to establish when there was a well-established and government controlled seller in the market for almost a decade, market share was 100% controlled by monopolized Draught. Immediately after starting the service in the market by the new comer, the unhappy customers of the monopolized industry started to change their service provider. They started with introductory promotional prices which was far much better than the ajar market controller, which directly affected the business of Draught. Competition, strengths and weaknesses.

When there are two or more sellers in a market, it is obvious that the competition will be born in the market. It is very interesting to study about the competition between Ordered and Draught. Luckily I have got very good connections at the top levels of both the companies, which made me to sit and talk about their respective companies. I found that they are tightly in

competition with each other. Pricing: When Draught was alone in the industry, consumers pay around USED \$100 average user used to pay around MOVE 2000 per month for the usage. Call rates are sky high.

Rates differ from calls from mobile to mobile and mobile to landlines. When the competition started and if we see current situation, we have choices for individuals and businesses depends on what consumer needs. There are some consumers who want more talk time than data while others doesn't care about the talk time but data allowance the service provider offers. Those used to spend around 2000 per month now are spending less than 500 per month because of competitive pricing by the competitors. Advertising: Earlier days Draught keeps and average advertising.

Unlike that now each and every TV channel is occupied by both Draught and Ordered advertisements. All the islands with more population see those companies' bill boards near harbors and schools. It is very clear that Ordered is doing more aggressive advertising while Draught use more informative advertising. Corporate Socialresponsibility: We used to say that both the companies do corporate social responsibility to a certain extent. But in real, in my study I found that rather than corporate social responsibility they both do corporate philanthropy. They do not actively participate in social activities.

But they do help by donation some money to do the social activities by others. That is a form ofadvertisementthey both do. They are present in the activities as bill boards. Just to advertise the company name. For example: Thieved league football tournament is always sponsored by one of these two

companies. Competitive advantages: Draught uses "first in Maldives" "Largest network" and so on while Ordered uses "best network for smart phones". Draught is first to come and still holds 65% market share while Ordered is gaining market share at a rapid speed.

But the backbone of the company is much better with latest technologies while Draught is upgrading its backbone. Subsidized handsets to consumers: Ordered started offering Samsung handset to its consumers with contract for the very first time in Maldives. And soon they will be starting offer apple handsets on contract, while Draught is working with apple to introduce subsidized apple handsets with contract. Apple currently certified Ordered network for their products while Draught is doing upgrades to obtain certification of using Apple products on contract. Is this industry good for the society?

Unlike the history of the monopoly in the telecommunication industry in the Maldives, with existing oligopoly (duopoly) consumers are happy now. As is economic theory, human wants are unlimited with the scarce resources available, people are still aiming for much cheaper services with better quality. As mentioned earlier in this report, consumers' expenses, for the use of telecommunication are decreased by 60 percentages. We never heard of handset for installments by service providers before. But it is started now. We have heard about subsidized handset with contract with carrier locked, from other parts of the world.

We never imagined that a small country with a small population like us will get phones on contract with subsidized prices. But it is soon to happen.

Unlike perfect competition and monopolistic competition there are no much of sellers. So competition and pricing of the products will not be according to the demand and supply. Sellers will have the power to set the prices. Consumers are very happy when there is a perfect competition and monopolistic competition. Consumers are sad at most when there is a monopoly. But than they used to have, the monopoly. It is an average good for the society.