Barriers to entry

In the theory of competition in the field of economics, barriers to entry refer to the obstacles that a firm faces in entering a certain market. Barriers to entry are made to block prospective competitors from entering a market valuably. These are designed to protect or secure the monopoly power of the present and existing firms in a market hence maintaining monopoly gains or profits in the long run.

Barriers to entry are an incumbent firm's source of pricing power since it gives a firm such capability to raise or increase their prices without losing their customers. There are many forms of barriers to entry into market. One of the more known and important barriers to entry are government regulations. Through such regulations entry in one's market may be more difficult or even impossible. There are other extreme cases where the government make competition unlawful hence creating a statutory monopoly in the country.

This type of barrier can be in the form of permits, licenses or tariffs that in turn raises the investment required in entering a market thus establishing an efficient barrier to entry. Another type of barrier to entry is marketing or advertising. By spending greatly on advertising that new firms find difficult to do, present or incumbent firms, make it hard for new entrants to penetrate the market. Sunk cost, is another form of barrier to entry. Sunk costs are costs that a firm cannot recover once it decides to leave the industry.

In turn, sunk costs strengthen the risk and discourage entry for new firms. Research and development can also be a barrier to entry in a market. Strong spending by one firm on its research and development can be a great restriction to potential competitors to a certain industry. Concentrated research by incumbent firms makes them more competitive in the industry thus giving them edge and structural advantage over prospective competitors. Barriers to entry indeed limit competition in an industry or market.

There are several more barriers to entry such as control of resources, distributor agreements, and economy of scale, investment, intellectual property, supplier agreements, predatory pricing, and a lot more. All of these are hindrances that new firms may encounter when trying to penetrate a market or industry. Works Cited Geroski, Paul. Barriers to Entry and Strategic Competition (Fundamentals of Pure and Applied Economics). New York: Routledge, 1990. Print.