Microeconomics essay

Economics, Microeconomics

A monopolistic market structure is one in which there are many sellers or sell similar products. These products are however not identical. Therefore in this market structure is an advanced level of differentiation of products from one firm to another. In this market, there are many firms which offer products to many buyers. Since the market is composed of many sellers, each of these firms is entitled to a certain percentage of the total market share. It has been noted that this market is composed of many sellers. What is makes the market structure different from the perfect competition market structures are the fact that the products sold by each firm are differentiated. Each firm in the market therefore strives to ensure that its product is different from those of other firms. This achieved through advertising, branding, packaging, and even the pricing strategy. This therefore means that at any particular point, a company's products would be very different from those sold by other companies. Others strategies that are used by firms in this industry to achieve product differentiation is through the us of unique and convenient locations making a product and also making a product appear different in style. This makes sure that even though the products sold are similar, they are not identical as perceived by consumers.

Another feature of this market structure is the ease of entry of new firms. It is easy for new firms join this industry. This means that there are few barriers of entry of new firms into the industry. This could be because of the little among of capital required to set up a similar business, few formalities for registering and starting a business in the industry as well as the ease of access to customers within the industry. Consequently, firms can join and exit the industry at any time depending on the wishes of the owner. Firms in this industry also have little control over the prices of goods and services sold. This is majorly because there are very many firms with each taking a very small portion of the total market. Consequently, when a firm’s management wishes to control the prices, it would not manage because customers would then purchase goods and services from those companies which have offered favorable prices. As opposed to the case in a monopoly market structure, firms in a monopolistic market cannot control the prices of goods sold.

The fast food industry is a perfect example of a monopolistic market structure. This industry is composed of very many firms with each firm having a small portion of the market. McDonald is the largest firm in the fast food industry yet it controls less than 20% of the total market share (O'Connor 2004). In this marker, there are very many small restaurants all of which share the total market. The fact that the fast food industry is made many small firms confirms that it is indeed a monopolistic market structure. Another characteristic of a monopolistic structure is that it offers similar products. The products are however differentiated such that a customer would be able to ascertain that products sold by one firm are unique as compared to the products sold by another firm. Indeed, all firms in the fast food industry sell a similar product which in this case is food. Firms in this industry however try make their products unique by coming up with different menus. Customers would therefore find that even though all the restaurants sell food, food sold in one restaurant is more appealing to his or her senses that the one sold in another. The menus sold in each of the restaurants in this industry vary which causes customers to find the products sold by these firms to be differentiated. Through differentiation, companies are able to come up with a variety of products that have unique features as compared to those offered by their competitors. McDonalds and Burger King are firms in the fast food industry which offer burgers to their esteemed customers. Indeed these two products are similar. However, the two firms have gone to have them differentiated such that whereas McDonald's supplies fried burgers, Burger King provides flame-broiled variety of burgers. This means that the two companies have sought to offer differentiated products to their customers such that in spite of their similarity, customers are able to identify with unique features of particular brands of products. Differentiation is therefore achieved through the advertisement and promotion of different menus. This makes the foods offered by one restaurant to be different from offered by another.

The easy of entry is yet another feature of the monopolistic market structure. A monopolistic structure one in which firms can join and exit at will. In such a market structure there are no such barriers of entry like huge capital requirements or long and tedious procedures of forming the company. In the fast food industry, there is ease of entry. Firms can easily join the industry the use of the franchising method. In a franchise, a person for pays for the license to access the franchisor's business knowledge and trademark for the former to be able to provide goods and services under the franchisor's business name. This is a very easy way of starting a business. The entrepreneur only needs to raise capital which is not too much depending on the size of the business he intends to form. Many companies in this industry operate under the franchising model. This has enabled many fast food businesses to be formed whose owners can choose to exit the industry at will. It is therefore important to note that the fast food industry is a monopolistic market structure because firms can easily join and exit the industry.

Another reason why the fast food industry is considered to be a monopolistic market structure is that none of the firms in this industry has any control over the prices charged food sold in the market (Hill and Jones 2010). The industry is composed of many sellers most of which are small in size. Owing to this fact, none of the sellers in the industry has adequate financial capacity to influence the prices of food in the market. The firms in the industry only produce goods and avail them to the market whereby consumers are at will to choose whether to purchase the products or not. Firms only use pricing strategies to differentiate their products so that consumers would find products one company to be unique as compared to those supplied by others. No firm is able to control the prices charged for the foods sold in the market as the case is in the monopoly market structure.

It is important to note that the demand curve for a monopolistic market structure is highly elastic. It is however not perfectly elastic. It is not perfectly elastic because as opposed to the firms in the perfect competition market structure, the product sold by one producer is differentiated from others in the market. Customers will therefore have a variety of goods and services to make a choice from. In this particular market structure, products sold are similar but not identical. The element of differentiation is what makes the market different from the perfect competition and hence the less elastic demand curve. The demand curve for this market structure is more elastic than that experienced in the monopoly structure. This is because there are many sellers in this market as opposed to the monopoly market structure in which there is only one seller. The fast food industry is therefore a monopolistic market structure.

There is also little government control in the monopolistic market structure. This is because this market structure is characterized by stiff competition among the existing firms. Consequently, the price of goods and services sold by firms in the industry is determined solely by the interaction of the market forces of demand and supply. The government has little or no influence over the operation of firms within this industry (Michman and Mazze 1998). Since firms in the industry offer similar products, differentiation is created through the heavy advertising which seeks to publicize the uniqueness of a company's products over those of the competitors. Through this advertising strategy, the firm is able attain a considerable level of market power through the creation of loyal customers. In the US, the fast food market is composed of firms like McDonalds and Wendy's which operate within the monopolistic market structure.

Bibliography

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