Structures and maximizing profits

Finance, Market

Market structures play an important role in the economy today. The strategic and profit maximizing concepts are determined by the type of market structure. “ Market structure is best defined as the organizational and other characteristics of a market. ” (Riley, 2006) Competitive markets, monopolies, and oligopolies three of the four market structures in the economy. A competitive market or perfect competitive market is a market that has many buyers and sellers that do not influence prices. An example of a competitive market would be the street vendors selling bottled water along the sidewalk of a tourist attracted city.

There are likely to be many vendors and buyers alike. Most notably the influence of each vendors input on price is low. The opposite of a competitive market is a monopoly. Monopolies affect the economy with considerable control over supply and price. The definition of monopoly is when the single seller of a product controls its market and does not allow competition. Local telephone, cable, and water, which are a natural monopoly, are examples of monopolies. Each of the companies has complete control for the distribution of their products or services in regards to supply and prices.

Oligopolies are types of imperfect competition in the market structure. An oligopoly is where only a few sellers offer similar or identical products. Consider watching a basketball game at any level of competition. The athletic wear, footwear, and accessories worn by players are more than likely Nike, Addidas, or Reebok. These companies sell products that are similar and are for the same purpose, yet they are not identical. This type of market structure is also known as monopolistic competition. Oligopolies have considerable control over some of the prices of the products they sell.

The characteristic of each market structure are important to understand the role of each structure. The determination of price in terms of maximizing profits is best understood by following the rules of production in a given market. Profit maximizing for a company or firm is utilized by using the company's profit maximizing output level. This is when the marginal cost is the same as the product price. When a company offers products in new locations the marginal cost of the products of the new locations is a part of the marginal cost. That would be an example of a company opting to profit maximizes their production ased on change of total cost to accomplish more profit. Another consideration of a profit maximizing rule is when marginal cost equals price. A company attempting to profit will manage this rule closely to determine profitability. The average total cost of a good is the deciding factor in profit maximizing where marginal cost equals price and marginal cost increases. Monopolist market companies maximize profits by following the rule marginal revenue equals marginal cost. Marginal revenue is the change in total revenue that results from a change in output.

Companies that are the single producer of a product will want to maximize their total revenue. Costs of production are low therefore marginal revenue will equal cost. Competitive markets, monopolies, and oligopolies have profit maximizing rules that compare price to marginal revenue, marginal cost, and average total cost to determine profit gain. Each market consists of barriers of entry. One of the reasons for entry is the encouragement of successful gain of profits from other companies. Consider the local and nationalfast foodhamburger restaurants.

McDonalds began as one of the first restaurants of its type followed by chains such as Wendy’s and Burger King. That is an example of monopolist competition at its best. A discouragement or barrier for entry into certain market structures is through law and regulations. Creating anti-trust laws are detrimental to the formation of monopolies and their continued growth. There are three examples of business practices that present a dilemma for business entry. Resale price maintenance is the setting of a product price is contracted by the wholesaler for the retailer to sell at that given price.

If the price is set from the wholesaler competition is suspended because of the price being uncontrolled by the retailer. The next business practice involves market power. A company that possesses market power has control of setting and changing prices without losing customers or altering the entire market. These companies are also referred to as price setters. “ Firms with market power normally use that power to raise prices above the competition level. ” (Mankiw) Predatory pricing is a debatable topic in terms of entry into a market and regulated policies. The third type of a business entry barrier is tying.

Tying forces smaller businesses to strategize products based on the market power and pricediscriminationpractices of manufacturers. There are four other barrier entry provisions for various markets. First, there is the denial of entry into a market or the lack of possible competition. Next, a company may own a key resource that provides exclusive rights to that market. Another point is when the government allows a single seller the right to produce or provide certain goods. Finally, the cost of production equals a single producer being more efficient versus the cost of production via a large number of producers.

The characteristics, price determinations, and barriers of entry into competitive markets play essential roles in the economy. The characteristic of each market provides buyers and sellers to understand and make business decisions for the success of the economy. The economy as a whole benefits from how market structures abide by the rules and regulations of profit maximizing. References Mankiw, N. G. (2007). Principles of economics (4th Ed.) Mason, OH: South-Western Cengage Learning. Riley, Geoff. September. 2006. A2 markets & Market systems. Market structures. Retrieved on January 22nd, 2012 from http://tutor2u. net/economics