# Market sturcture

Finance, Market

But not to worry because you just hired a new consultant that can help you out with understanding market structures. First off we need to know that market structure is an organized market, based largely on the number of firms In the Industry. The four basic market structure models are: perfect competition, monopoly, monopolistic competition, and oligopoly. Perfect competition is " the market structure in which there are many sellers and buyers, firms produce a homogeneous product, and there is free entry into and exit out of the Industry.

Homogeneous means that the product of one firm Is no different room that of other firms In the Industry. Since this Is the case, purchasers have no preference for one producer over another. It is important to keep in mind that this is a theoretical model. Real data does not exist, and the model does not precisely describe reality. The model is useful, however, because It provides a point of reference. It allows the development of tools of analysis that Indicate what determines price and quantity when conditions are close to those of perfect competition.

The perfectly competitive market is the abstract ideal to which we will compare other market structures". Just Like perfect competition, monopolistic competition has a large number of sellers too, but each of these sellers offer a different product. These products can consist of a good or service that has real or imagined characteristics that are different from those of other goods or services. 3 The differentiation can take many forms, such as customer service, the price, or style. Sometimes it can even be associated with famous people, like Lebanon James and Nikkei.

One important characteristic about monopolistic competition is that entry into this industry is relatively easy. New firms can enter the industry and start selling products that are similar to those already being produced. " In Edward Chamberlain's original description of monopolistic competition, a market for a set of goods that were differentiated but had a large number of close substitutes was called a product 1 OFF where there was rivalry between many firms in a product group. The market structure of monopolistic competition has some characteristics of monopoly and some of pure competition, which explains its name.

Oligopoly is the market structure in which sellers are so few that the actions of NY one of them will materially affect price and have a measurable impact on competitors. The low number of sellers is the key to firms' behavior in oligopoly. In oligopoly, firms realize that their small number produces mutual interdependence. When something like this occurs, each firm will forecast or expect a certain response from its rivals to any price or output decision that it might make. " Oligopolies are sometimes categorized by the type of product they produce: homogeneous or differentiated.

An oligopolies industry that produces a homogeneous product is referred to as a pure oligopoly or a standardized oligopoly. In contrast, a differentiated oligopoly produces products that are different. The auto industry is a good example. In differentiated oligopolies, there are price clusters, which are groupings of prices for similar, but not homogeneous, products". 4 Last of the four monopoly competition, this is a market structure in which there is a single seller of a product with no close substitutes. The monopoly

competition has the ability to exercise power over market price and output, which is called monopoly power.

Even though there are no pure monopolies, there are many firms that have mom degree of monopoly power. Monopoly is also a price searcher; it searches for the price-quantity combination that will maximize its profit. Now remember monopoly is a single seller, so if a monopolists is earning profits entrepreneurs will want some of that. Which means you will have them wanting in on the industry and your no longer a monopolist. If a monopoly is to continue on, there must be some forces at work to keep new firms from entering. Barriers to entry are natural or artificial obstacles that keep new firms from entering an industry.

Without such barriers, monopoly cannot continue. If we take one of the market structures and gave an example of the characteristics you may have a better understanding of it. A good example would be perfect competition, because it's everywhere for one. You have six characteristics for perfect competition and first one being that there are a large number of sellers or producers in the market Smart, Wall-Mart, Target, Cam's club, Sears, and J Penny. Next one is that you need to have a large number of buyers or consumers and we all know each of these stores have that. Thirdly perfectly competitive firms produce a homogeneous product.

They all sell Just about the same thing, so it wouldn't matter if I bought it from either store. Now you have your fourth characteristic, where entry and exit should be free which it is. The last two consist of having perfect knowledge and employees or resources can easily move in and out of the

industry. Every store I mentioned fits all these characteristics and therefore is perfect competitive stores. 5 Let's take a look at barriers to entry. When you think about barriers, you may say this is a bad idea or thing because barriers prevent you from going any further then you are.

Well when you have a business and is involved in the market structure that copy what you've done to make millions, then in time you will Just find yourself sharing the millions and I don't think you would like that. So barriers to entry are a good way to go. It allows you to keep all the profits and products to yourself, without anyone stepping in or saying they'll Just make a substitute of what you have and give it a different name. If you're the only one who sells this product and no one else can, chances are you will make tons of profits in the long-run do to the fact of barriers to entry.

Like I stated above you would the entry to barriers on your side, because of the pressure some firms face. Like if I was the only cable company, where you pick what you want to pay for. I could make millions and turn it into billions a year or two later. But if I didn't get this patent or government help, then I would Just have someone imitating what I did. Who will eventually start to makemoney, but your money. Now this person is Just taking your customer because they found a way to intrigue the consumer more to their product than yours. Which will cause you to share money and never make a profit or very little.

Even worse put you out of business and take over what you started. " The price elasticity of the demand curve facing a monopoly firm determines if the marginal revenue received by the monopoly is positive (elastic demand) or

negative (inelastic demand). This relationship is important for the profit-maximizing production decision that involvesequalitybetween marginal revenue and marginal cost. It implies that a monopoly can 6 only maximize profit in the elastic range of the demand curve. The demand curve for the output produced by a unapologetically competitive firm is relatively elastic.

The firm can sell a wide range of output within a relatively narrow range of prices. As a price maker, the firm has some ability (not much, but some) to control price. The demand curve is negatively sloped, but relatively elastic, because each firm produces a slightly differentiated product, but faces competition from a large number of very, very close substitutes. The demand curve for the output produced by a perfectly competitive firm is perfectly elastic at the going market price. The firm can sell all of the output that it wants at this price because it is a relatively small part of the racket.

As a price taker, the firm has no ability to charge a higher price and no reason to charge a lower one. The market price facing a perfectly competitive firm is also average revenue and, most important, marginal revenue. " Everyone has a price to pay, meaning nothing is free in this world. The government recognizes that these are natural monopolies and therefore charters them and then regulates their prices and output levels. Well as for monopoly the government would use barriers to entry to affect the prices. The government has no regulations for perfect competition.

When you talk about international trade, the monopolist is able to charge different consumers different prices or charge a given consumer different prices depending on the quantity purchased, the monopolist is practicing

pricediscrimination. When firms in a country sell in a foreign market at a lower price than they do at home, they are engaging in price discrimination, which will lead to dumping. " Governments have long intervened in international trade by collecting taxes, or tariffs, on imported the easiest ways for governments to collect revenue.

However, tariffs have a number f other effects besides generating government revenue; they also affect the success of business and the well-being of consumers. And because tariffs affect the volume of trade between countries, they also affect businesses and consumers abroad". So when you start your first day as mayor, you will be able to know and understand the four market structures. You should what the markets are and what they do; you also should know how high entry barriers into a market will influence long-run profitability of the firms.