The market structures and their differences

Literature, Russian Literature

The market structures and their differences The four economic market structures are monopoly, oligopoly, perfect competition, and monopolistic competition. The pricing, profit, and strategic decisions companies make vary depending on the economic structure in which the firm operates. Each market structure has different barriers of entry levels. For instance monopolies and oligopolies have high barriers of entry. A barrier of entry can be defined as an imposition that makes it hard for new companies to enter an industry. In the airline industry which operates as an oligopoly the barriers of entry are high due the fact that new participants must have a lot of capital to enter the industry. A way to create a barrier of entry and to create a monopoly is through the use of patent protection. Creating a monopoly implies that the company is the only participant in the market. Perfect competition is a market that has the following five characteristics: All firms sell an identical product All firms are price takers All firms have relative small market share Buyers have complete information Low barriers of entry An example of a business that operates in perfect competition is the stock market. In perfect competition price equals margin costs equals marginal revenue (P= MC= MR). The monopolistic competition market structure has many sellers, differentiated products, easy entry of firms and different dimension. Products in this economic marketplace are different. Examples of two companies that participate in a monopolistic competition marketplace are McDonald’s and Pizza Hut. International trade International trade is imperative towards the success of the global economy. Trade occurs through two mechanisms which are exports and imports. Exports are the goods and services that are sold to other countries, while imports are goods and

services that are purchased from other nations. Due to the tremendous economic growth that China has endured during the last three decades this country has become the top exporter of goods in the world. The United States ranks third in total global exports. To export a lot of goods globally requires a country to have solid manufacturing base. Global trade has increased a lot during the past few decades due to the proliferation of free trade agreements. Some examples of free trade agreements are the NAFTA, MERCOSUR and the European Community. NAFTA is a trade agreement between the United States, Mexico and Canada. Free trade has helped increased economic activity worldwide, but it has also hurt developed countries such as the United States because more companies are moving their operations oversees as a direct consequence of the existence of free trade agreements. Interest groups that are against free trade believe in the value of protectionism. Protectionism is an economic policy that restricts trade through mechanisms such as tariffs, import quotas, anti-dumping legislation, subsidies, and exchange rate manipulation. An industry that is often protected through these measures is agriculture. The majority of people prefer free trade over protectionism since protectionism seems to benefit only special interest groups. China was one of the last economies that operated under protectionism, but today this country has moved away from protectionism by opening up its economy. The law of supply and demand One of the most important concepts in the field of economy is the law of supply and demand. This theory explains the interaction that occurs between supply and demand of a resource. The key variable that influences the supply and demand of products is price. Based on the law of supply and

demand the demand of a product will increase with a reduction in price and consequently it will decrease if the price of a product is raised. The logic behind the law is used by retailers in their pricing decisions for products. The price of a product will vary depending on which stage of the product life cycle the item is in. The relationship of supply is influenced by time due to the fact that suppliers cannot react quickly to changes in demand or price. Equilibrium is said to exist when the supply and demand of a good are equal. At this point the allocation of goods is most efficient. Everyone in the market is satisfied under this condition. Excess demand occurs when price is set below the equilibrium price, while excess supply occurs if the price of a product is too high. Economists often visualize supply and demand through a graphic curve. The supply and demand curve can have either movements or shifts. A movement depicts a change in both price and quantity demanded. A shift occurs when the price stays stable, but the demand or supply changes.