

Financial analysis

Literature, Russian Literature



Barriers to Entry Barriers to Entry In Gump Storm, Forrest survives a storm and his boat is the only one remaining for fishing. Considering no other fishers can operate because of lack of machinery, Forrest enjoys a monopoly market because they had the only available boat, yet the demand for shrimps was still considerably high. Naturally, the fishing industry subsists in a perfect competition, in which there is little economic profit for players. Forrest can charge a high price for the shrimps and enjoy maximum economic benefit. Potential competitors in Forrest's monopoly market face a barrier to entry in terms of high fixed cost versus small margins, and high capital requirement (Dilek and Colakoglu, 2013). They will have to use some money and time before recovering and making sales.

Barriers to entry are conditions that stop or obstruct a potential competitors ambition to participate in the market. Several barriers to entry exist in other industries that allow certain firms to operate as a monopoly. Legal restrictions and licensing requirements from the government can restrict domestic or international competition (Dilek and Colakoglu, 2013). In addition, brand loyalty provides a barrier to entry, for instance, through product differentiation. It is difficult for people to compete with a valued brand like Coca Cola. The ability to control natural resources is another barrier to entry that facilitates a monopolistic market (Dilek and Colakoglu, 2013). For example, diamond-mining companies, such as De Beers, keep the value of diamonds high because they allow only limited mining of the natural resource.

Fortunately, the barriers are contestable because other players in the market see the potential in the market and can fight for a place. Market forces are

dominant enough to break a monopoly (Dilek and Colakoglu, 2013).

Normally, a monopoly enjoys government protection, and for the case of Forrest, he have no protection, other than the fact that there are no boats. A perfectly competitive market results from a less contestable market. Even so, at times it these barriers are not contestable. A good example is the use of application software like Microsoft Word. Most people will use it simply because they want to enjoy compatibility with other users and face fewer challenges in its use. In such a case, the barrier to entry is not contestable.

Reference

Dilek, S. and Colakoglu, N. (2013). Barriers to Entry and Two-Sided Markets: A Research in a Shopping Mall in Istanbul. *Asian Economic and Financial Review*, 3(4): 542-552.