

Monopolistic competition explained



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There are four main market structures in an industry, namely, perfect competition, monopoly, oligopoly, and monopolistic competition. A perfect competition is a market structure that occurs when there are many small business organizations that engage in a competition with one another. On this basis, the decision of one seller does not create any impact on the price of the products under consideration (Parkin, 2012). It is important to denote that under this market structure, the products of the companies are standardized and they are identical.

These small business organizations do not have any influence on the price of their products. It is the market that determines the prices of their products, through the laws of supply and demand. This market is also characterized by an absence of barriers that prevent new companies from leaving or entering the market. An example of an industry that operates under a perfect market structure is the agriculture industry (Schwartz, Carew and Maksimenko, 2010). In the agriculture industry, there are a variety of firms that seek to sale agricultural produce to consumers. The prices of agricultural products are always guided by the laws of demand and supply, and no individual business person can influence the prices of agricultural products.

However, it is important to denote that a perfect competition is a theoretical type of market structure, and it rarely exists in the real life. This is because companies always advertise their services for purposes of gaining a market share, and reduce the prices of their products for purposes of increasing their sales. Companies will strive to control the prices of their products, in order to achieve profitability (Parkin, 2012). The perfect market structure is an opposite of a monopoly. Under monopoly, there is only a single company

that provides a certain service or good. The company under consideration will always control the prices of its products because competition does not exist. In a monopoly, the product that is produced is unique, and hence there is no substitute for the products.

A monopolistic market is highly regulated, whereby new entries are blocked and it is also difficult to move out of this market. The reason as to why there is a restriction in this market is because of the high costs of operating the business under consideration. Political, economic and social factors can also be the reason as to why new players might be reluctant to invest in this market (Schwartz, Carew and Maksimenko, 2010). For example, the government can decide to form a monopoly in an industry that it wants to control. A good example is the electricity and the oil industry.

Another barrier might occur a company has an exclusive right over the production of a natural resource. An example is the oil industry in Saudi-Arabia where the Saudi Government has exclusive control over the oil resources in the country. A monopoly will also exist when an organization has a patent or copyright, which in turn will prevent other players from entering the market. An example is Pfizer, which had a patent right over the production and distribution of Viagra (Parkin, 2012). An oligopoly on the other hand is a market structure whereby there are only a few companies that are responsible for producing and supplying goods and services.

These groups of companies have a control of the various prices of their products. It is similar to a monopoly in the sense that it has a high barrier of entry. This is because entering in this type of a market requires high capital

base, which is always difficult to raise (Schwartz, Carew and Maksimenko, 2010). It is also similar to companies operating under a perfect competition in that the products of one firm, is very similar to the products of another firm. This is in terms of quality, and their features. In as much as companies operating under an oligopoly have a control over their prices, they are always inter-dependent on one another.

This is because before formulating a policy, these companies will have to analyze the reactions of their competitors in terms of the prices of their commodities, advertising and selling strategies, etc. Examples of companies that operate under this type of market structure are the auto-mobile companies. These companies are few in nature, and it always requires a huge capital base for anybody to invest in an auto-mobile industry. The marketing policies of these companies are always inter-dependent with one another. For example, Mercedes/Daimler is a luxury brand whose main competitor is BMW. The prices of Mercedes vehicles will always be determined by the prices of BMW (Parkin, 2012).

This is because they are both competing for the same market, and they produce a similar product. An example of an oligopolic market structure is the duopoly. A duopoly is a market structure characterized by the existence of two firms/ industries. A duopoly can have the same impact as a monopoly if the two organizations collude for purposes of controlling the prices of their products. An example of a duopoly is the master card and visa (Schwartz, Carew and Maksimenko, 2010). These two companies have a significant control of the electronic payment market. Other examples include Apple and Amazon, because of their significant dominance of the e-book market.

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Finally, a monopolistic competition on the other hand is highly similar to a perfect competition. In this type of market, there exist many companies each controlling a small percentage of the market share. This is similar to a perfect competition market which thrives on the availability of many small companies, competing for the same market (Parkin, 2012). However, the main difference between this type of market with that of a perfect competition market is that these companies produce different products, and is characterized by different pricing and advertisements strategies. A monopolistic competition market thrives on variety. Example of companies operating under this structure is the fast food restaurants. Restaurants produce a variety of foods, with different pricing strategies and brand names. They are also located in different areas, and this satisfies the characteristics of a monopolistic competition. s

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