Essay on imperfect competition and monopoly markets

Business, Company

Admittedly, there are a number of market structures that can exist in the economy. The term ‘ market structure’ refers to the way producers and consumers interact to determine price and quantity in the market. It can be described by looking at the different attributes of a market which includes the number of producers, number of consumers, the size of the market, and the growth forecasts. In general terms, a market can be categorized into two wide categories; imperfect competition and perfect competition. Imperfect market can be further subdivided into for instance, monopolies, monopsony, oligopoly, and monopolistic competition, (Hirschey, 2008). From the economic theory point of view, imperfect competition can be defined as competitive conditions in a market where perfect competition conditions are not met. On the other hand, a monopoly can be defined as an individual or an enterprise with adequate control over a certain service or product to an extent of determining the terms and conditions that of acquiring such a product or service.

As mentioned above, a monopoly is an example of an imperfect competition, (Gregory, 2008). However, there are a number of significant features which differentiates the two markets. To begin with, a monopoly is characterized by a single seller but many buyers in the market. The seller is also responsible for the production of that particular good or service. As such, the entire market is served by a single enterprise or rather a single firm. On the other hand, in the case of an imperfect competition there are many buyers and sellers in the market who are generally trading in differentiated goods and services. However, although there are numerous sellers and buyers in the market, others have an advantage of influencing activities in the market. For instance, some sellers and buyers may have an upper hand in determining the prices of products due to one reason or another.

In the case of a monopoly, there is a restricted entry into the market. The barriers to entry includes such factors as; legal issues in that the monopoly has been created by the state hence there is limited entry into the market, the monopoly emerged due to a popular trademark hence ensuring consumers' loyalty, copy rights and patents, high cost of entering into the market, as well as restricted control of a resource, (Max, 2006). On the other hand, there is no restriction in entering into an imperfect competition market. This makes firms in the imperfect competition vulnerable if they are making significant profits. In the long run, their profits will decline due to the free entry of other firms. Moreover, although firms in imperfect competition have the ability of deciding the price of their products independently, they also take into consideration the pricing strategy of other firms. This is very vital as helps in maintaining their clients. This is not the case with the monopolies who solely determine their prices.

Lastly, in the imperfect competition there is product differentiation unlike in the case of a monopoly. In the imperfect competition firms deals in goods that have differences may it real or perceived. However, the differences are very minimal hence, does not eliminate goods as substitutes, (Libby, 2009). The main differences are reflected in the type, quality, appearance, and style. In the case of a monopoly, goods have no close substitutes.

In most cases, monopolies are viewed as being ' bad' from the consumers' point of view. Firstly, monopolies are considered as being exploitative, (Gregory, 2008). Due to the absence of competitors, monopolies charge higher prices for their products. The fact that these products have no close substitutes or alternatives, give no option to the consumers. For instance, in the motor industry, there are many companies that produce vehicles of different models. Therefore, the consumers have an alternative to buy a model of their choice depending on their income. If the vehicles were being produced by one company, clients would not have that opportunity to choose what kind of vehicle as per their incomes but they would go for what is being offered in the market.

Secondly, generally the quality of the products of monopolies is lower as compared to the quality of these products if produced under the perfect competition market, (Karl, 2007). Competition leads to innovation and invention hence constant improvement in the quality of the products. Due to lack of competition, monopolies are reluctant in investing in product improvement. For instance, in the mobile phone industry competition has played a major role in improving the quality of mobile phones that have been produced. A good example is the introduction of the iPhone by Apple came as result of competition. If the mobile phone was dominated by one firm, invention of such phone could have taken a long time.

Lastly, monopolies lead to increased prices. It is very possible for a firm to increase the price of their products in order to increase their profit margin if it is the only producer of a particular product. Moreover, the fact that the firm controls the resources of production such product increases the possibility of increases prices without affecting its sales. A good illustration is the Saudi Telecom Company in Saudi Arabia which was the only telecom company in this country. In this period, the call costs in Saudi Arabia were extremely high, (Alhusaini, 2007). Entry of other firms into this industry has led to the reduction of the call costs that exist in Saudi Arabia to-date.

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