Characteristics of monopoly: case study

There are following main characteristics of monopoly

(a)A single firm selling all output in a market: The essence of a monopoly is a market controlled by a single seller. The “ mono” part of monopoly means single. The most important aspect of being a single seller is that the monopoly seller IS the market. The market demand for a good IS the demand for the output produced by the monopoly. This makes monopoly aprice maker, rather than aprice taker.

(b)A unique product: To be the only seller of a product, however, a monopoly must have a unique product. Therefore, the whole market is being served by a single company, and for practical purposes, the company is the same as the industry.

(c)Restrictions on entry into and exit out of the industry: A monopoly is generally assured of being the ONLY firm in a market because of assorted barriers to entry. Some of the key barriers to entry are: (1)governmentlicense or franchise, (2) resource ownership, (3) patents and copyrights, (4) high start-up cost, and (5) decreasingaverage total cost.

(d)Specialized information about production techniques unavailable to other potential producers: Monopoly is commonly characterized by control of information or production technology not available to others. This specialized information often comes in the form of legally-established patents, copyrights, or trademarks. While these create legal barriers to entry they also indicate that information is not perfectly shared by all.

Case Study for the monopoly market

International Harvester and American Tobacco

International Harvester produced cheap agricultural equipment for a largely agrarian nation, and was thus considered untouchable lest the voters rebel. American Tobacco, on the other hand, was suspected of charging more than a fair price for cigarettes – then touted as the cure for everything from asthma to menstrual cramps – and consequently called down the legislator's wrath in 1907 and was broken up in 1911.

Characteristics of Oligopoly

International Harvester and American Tobacco

(a) Small Number of Large Firms: The most important characteristic of oligopoly is anindustrydominated by a small number of large firms, each of which is relatively large compared to the overall size of the market. This characteristics gives each of the relatively large firms substantialmarket control. While each firm does not have as much market control asmonopoly, it definitely has more than a monopolistically competitive firm.

(b) Identical or Differentiate Products: Some oligopolistic industries produce identical products, like perfect competition in this regard, while others produce differentiated products, more like monopolistic competition. This characteristic might seem to be a bit wishy-washy, taking both sides of product differentiation issue. In actuality it points out that oligopolistic industries general come in two varieties:

(c) Barriers to Entry: Barriers to entry are the key characteristic that separates oligopoly from monopolistic competition on the continuum of market structures. With few if any barriers to entry, firms can enter a monopolistically competitive industry when existing firms receive economic profit. This diminishes the market control of any given firm. However, with substantial entry barriers found in oligopoly, firms cannot enter the industry as easily and thus existing firms maintain greater market control

Case study for the Oligopoly market

Oligopoly in U. K. Hotel Sector

Concentration ratio — Concentration ratio in Oligopoly includes a highly concentrated industrial structure where the whole competition is limited between small numbers of competitors.

Determination of concentration ratio can be done by determining the total market share of N number of largest firms operating in area.

By accessing market share data of hotel sector we can very well determine the concentration ratio.

3 firm concentration ratio = 20. 2+18. 5+10. 7 = 49. 4

5 firm concentration ratio = 20. 2+18. 5+10. 7+10. 2+6 = 65. 6

7 firm concentration ratio = 20. 0+18. 5+10. 7+10. 2+6+5. 1+4. 9 = 75. 6

Entry barriers – Entry barriers in hotel industry have a very major role to play as high entry barriers restrict other firms to enter and thus existing firms make a good profit.

High entry barriers for new firms are very much beneficial for existing firms as if there will be high entry barriers it would be somewhat difficult for new entrants to come inside that circle.

For new players entry barriers are very stringent existing players also have a very tough exit barriers because of high capital investment, sunk cost etc.

Some of the entry barriers for newcomers in hospitality industry are as follows –

Advertising – Advertising is a type of entry barrier which is a must for a new entrant and since a huge cost is involved in advertising it becomes difficult for a firm with low advertising budget to survive.

High capital investment – In today's world where every new project requires a very heavy capital investment, new entrants found difficult to cope with the high capital requirement.

Government regulations – Stringent government regulations are mandatory in hospitality industry thus government regulations act as entry barrier for a new firm.

Land resources – It is very essential for any business to concentrate on a good land resource or place to ensure convenience to footfall of customers.

Existing market players can also do some mischief for the budding businesses as to play with the price variably, conniving with regulatory authorities to create hurdles for new businesses etc.

Conclusion – Hotel industry is a typical oligopolistic industry. Once again in the conclusion part if we go through the definition of Oligopoly that clearly states that Oligopoly is a market with a small number of large players, hotel industry is an industry with a small number of large players. They are small in number due to high entry barriers and high exit barriers.

Characteristics of Perfect competition

(a) Large Number of Small Firms: A perfectly competitive market or industry contains a large number of small firms, each of which is relatively small compared to the overall size of the market.

(b) Identical Goods: Each firm in a perfectly competitive market sells an identical product, which is also commonly termed “ homogeneous goods.” The essential feature of this characteristic is not so much that the goods themselves are exactly, perfectly the same, but that buyers are unable to discern any difference

(c)Perfect Resource Mobility: Perfectly competitive firms are free to enter and exit an industry. They are not restricted by government rules and regulations, start-up cost, or other barriers to entry. While some firms incur high start-up cost or need government permits to enter an industry, this is not the case for perfectly competitive firms

(d) Perfect Knowledge: In perfect competition, buyers are completely aware of sellers’ prices, such that one firm cannot sell its good at a higher price than other firms

Case study for the Perfect Competition

TITLE: A perfect competition under e bay: a fact or factoid?

This case study has been primarily written to understand the concept and operation of perfect competition in a real world. This case study articulates a well orchestrated debate on the possibility of existence of perfect competition. eBay, founded by Pierre Omidyar, a software developer, in September 1995, is the online auction giant which flaunted its first mover advantage spectacularly. It is an American website headquartered in San Jose (California) and acts as the world's online marketplace facilitating large scale trade of varied items globally. Perfect competition is an ideal market structure rarely found in the real world, which is a receptacle of imperfect competition. However, many important features of perfect competition like large number of buyers and sellers, information symmetry, low barriers to entry and to some extent homogenous products manifest in eBay's business. But whether eBay may truly be considered as a good example of a company operating in a perfectly competitive market awaits understanding of a few basic issues that would arise as the case comes under interesting discussion that it merits.

Characteristics of Monopolistic competition

(a) Large Number of Small Firms: A monopolistically competitive industry contains a large number of small firms, each of which is relatively small compared to the overall size of the market. This ensures that all firms are relatively competitive with very little market control over price or quantity.

(b) Similar, But Not Identical Goods: Each firm in a monopolistically competitive market sells a similar product. Yet each product is slightly different from the others.

(C) Resource Mobility: Monopolistically competitive firms, like perfectly competitive firms, are free to enter and exit an industry. The resources might not be as “ perfectly” mobile as in perfect competition, but they are relatively unrestricted by government rules and regulations, start-up cost, or other substantial barriers to entry.

(d) Extensive Knowledge: In monopolistic competition, buyers do not know everything, but they have relatively complete information about alternative prices. They also have relatively complete information about product differences, brand names, etc. Moreover, each seller also has relatively complete information about the prices charged by other sellers so that they do not inadvertently charge less than the going market price.

Case study of the Monopolistic competition

Recently, one leading company has taken the decision to withdraw from the nursery market, whereas another has set a clear strategy to achieve market leadership through acquisitions. What lies behind the different approaches?

In August 2007 Nord Anglia decided to sell its market-leading nursery operation for less than half the price it paid to build the business. Nord Anglia sold its 88 kindergartens to Busy Bees, an Australian-owned company, for £31. 2 million. It blamed over-capacity in the nursery market and the lack of economies of scale as the main reasons for the disposal. In 2006, Nord

Anglia made a loss of £3. 5 million on its nursery operation, on turnover of £47. 1 million. For Busy Bees, the acquisition catapulted the business into the number one position in the nursery market, giving it a total of 134 nurseries across the UK. John Woodward, the entrepreneur who founded Busy Bees with a single site 25 years ago wants to make Busy Bees into a " major childcare brand".

SUMMARY

1. Thomas J. DiLorenzo. " The Myth of Natural Monopoly – Thomas J. DiLorenzo – Mises Daily". Mises. org. Retrieved 2012-11-02.

2. Goodwin, N; Nelson, J; Ackerman, F; Weisskopf, T (2009). Microeconomics in Context (2nd ed. ed.). Sharpe. pp. 307–308.

3. Perloff, J. Microeconomics Theory & Applications with Calculus. page 445. Pearson 2008.

4. Rodman, George. Mass Media in a Changing World. New York (2nd ed.), McGraw Hill, 2008

5. www. slideshare. net/udayansikda

6. www. ukessays. com

7. intranet. harrodian. com

8. www. investopedia. com