Effects of competitive markets essay

The degree to which a market or industry can be described as competitive depends in part on how many suppliers are seeking the demand of consumers and the ease with which new businesses can enter and exit a particular market in the long run (Makinaw, 2009).

This paper will discuss the characteristics of a competitive market. This paper will also analyze the effects of competition amongst electronic chains with a focus on Circuit City. Competition Defined Competition is usually thought to improve efficiency and be good for customers. However, if there is too much competition then firms will not make enough profit to conduct research and development which may lead to technological stagnation, to some extent. Competitive markets exist when there is genuine choice for consumers in terms of who supplies the goods and services they demand.

Competitive markets are characterized by various forms of price and non-price competition between sellers who are bidding to increase or protect their market share. Types of Competitive Markets The spectrum of competition ranges from highly competitive markets where there are many sellers, each of whom has little or no control over the market price – to a situation of pure monopoly where a market or an industry is dominated by one single supplier who enjoys considerable discretion in setting prices, unless subject to some form of direct regulation by the government. In many sectors of the economy markets are best described by the term oligopoly – where a few producers dominate the majority of the market and the industry is highly concentrated. In a duopoly two firms dominate the market although there may be many smaller players in the industry. A perfectly competitive market has the following characteristics: * There are many buyers and sellers in the market. * The goods offered by the various sellers are largely the same.

* Firms can freely enter or exit the market. As a result of its characteristics, the perfectly competitive market has the following outcomes: * The actions of any single buyer or seller in the market have a negligible impact on the market price. Each buyer and seller takes the market price as given. * Thus, each buyer and seller is a price taker (Makinaw, 2009) Benefits of Competition Competition can spur improvements in products and services as the companies vie to keep or acquire customers. For example, cell phone companies now offer free unlimited intra-family calling.

Car manufacturers are offering cars that parents can program to limit speed and use of radios. If competition does not exist, there is no incentive to be efficient and provide exactly what people want at decent prices. For example, if I am the only person able to provide medication to a town I can charge any amount I choose, as long as the price is within customers means. If I have a rival we may have to compete on price or quality (although we could collude to keep prices high). Why are competitive markets seen as beneficial for consumers and the economy as a whole? " Vigorous competition between firms is the lifeblood of strong and effective markets. Competition helps consumers get a good deal.

It encourages firms to innovate by reducing slack, putting downward pressure on costs and providing incentives for the efficient organization of production. As such, competition is a central driver for productivity growth in the economy, and hence the US's international competitiveness" (" Watch

Out Best Buy and Circuit City”). What are the potential gains from increased market competition? 1. Lower prices for consumers 2. A greater discipline on producers/suppliers to keep their costs down 3. Improvements in technology – with positive effects on production methods and costs 4.

A greater variety of products (giving more choice) 5. A faster pace of invention and innovation 6. Improvements to the quality of service for consumers 7. Better information for consumers allowing people to make more informed choices The overall impact of increased competition should be an improvement in economic welfare. Lack of Competition Competition can also spur a company to lower prices to get or keep business.

Lack of competition allows a company to set prices relatively high, to the point that people decide they will go without the product or service. For example, if there is only one airline flying to Japan, that airline may charge extensive fees. There would also be no reason to add features to the product, unless you can charge more to recoup the cost of development. Electronics Industry In the electronics industry, competition of one form or another drives us all.

Faster, cheaper, and smaller are the words that drive products and manufacturing. Competitive time-to-market drives the electronic design engineer. Faster, cheaper, smaller products, and with ever-shortened design cycles are some of the competitive forces that customers must deal with in today’s environment. Today, consumer electronics companies need to do it all – develop new products, expand growth, cut costs and continuously restructure. Organizations need to do this faster and more carefully, and at the same time they need to be mindful of the impact that change has on all other aspects of business. Circuit City's Downfall Circuit City Stores Inc.

began selling TVs in a Richmond store in 1949. Circuit City was once the nation's largest consumer-electronics retailer. They filed for bankruptcy protection November 10, 2008 after suppliers refused to ship products without receiving cash up front. The company intended to emerge from bankruptcy as a smaller company, but it soon followed the same liquidation path that had been taken by KB Toys, Mervyn's and Linens ' N Things. Consumer spending decreased after financial markets imploded in September 2008, and the economic recession, which began in December 2007, deepened as a result.

Retail sales in the U. S. had fallen for six months in a row, which was the longest span since such recordkeeping began. Besides the weak economy, Circuit City faced intensifying competition from Best Buy and Wal-Mart, which repeatedly cut prices on big-ticket items such as flat-panel TVs. Best Buy, eventually replaced Circuit City as the nation's top consumer-electronics retail chain. Wal-Mart's strategy included aiming for the nation's two largest consumer-electronics chains, Best Buy and Circuit City.

Wal-Mart modified the interiors of many of its electronics departments and added a slew of high-end products. Wal-Mart's ultimate goal was to get Best Buy and Circuit City worried. Best Buy was in a better position than Circuit City to take the hit because it had found more high-margin services to bolster its bottom line. As a result Best Buy and Wal-Mart emerged as the two firms who were able to survive the competition in the electronic industry, and Circuit City has gone out of business after the 155 U. S.

stores failed to find a buyer. Conclusion Competitive markets produce both positive and negative effects on the economy. For consumers, the effects are positive as it provides choices as well as competitive pricing on goods and services. For business within the industry this can lead to negative effects as illustrated by the example provided in the case of Circuit City. In the end, competitiveness means adapting to change. Referenceshttp://www.
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