The motor vehicle repair and servicing industry economics essay

Environment, Air

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Abstract

Within the market structure, there are extremes and there are middle grounds. The Perfect Competition is the structure of the extreme left with many competitors and smaller businesses/organizations. In this structure, the individual entrepreneur can actually enter with very little barriers or none at all. In the Monopolistic Competition, which is the most commonly used structure today is the one that comes closest to the Perfect Competition, which is one of the structure that is in the middle ground. The Oligopoly has little competition and can begin as a business in using the Monopolistic Competition structure, when a business reaches the point of being an Oligopoly; they begin to have some issues which can be remedied by innovative measures. Then there is the Monopoly. In this structure, just like the New York Yankees, the business becomes an " Evil Empire". In this structure, society as a whole can/will suffer.

Perfect Competition

As one looks at Perfect Competition one can see that it is a structure that the average entrepreneur can engage their business in. In this structure it is easy for one to move in and just as easy to leave the industry altogether. The Perfect Competition is the best situation in which it is structured by a great amount of small business/organizations that sale the same products/services. Perfect Competition is a structure that is somewhat naïve in the sense that it is not practiced in the common market. Perfect

Competition in every sense can help in benchmarking in order to get a grasp of the market structure. Ideally, Perfect Competition is very resourceful in the way it distributes supplies and funding. In this structure, no one single business/organization can influence the market prices/costs of the product/services that are provided. The businesses/organizations that deal in Perfect Competition are price takers. Price takers are those that have so little influence or control within the industry and the price/costs of the product/service. The business and the consumer must accept the price at the rate that is set out by the market. This market organization is occupied by a number of those that have less influence. In the Perfect Competition, if the prices of the product/service is raised or lowered, then the others within the industry must analyze the changes within the market and make the necessary changes in order to do business. In this structure, Perfect Competition, the consumer must take the product/service at the going rate and the business must be able to accept the price/costs that are at the going rate on the market. The spectrum of the Perfect Competition, as stated earlier, is characterized by a great amount of small businesses/organizations. In this, every one of the businesses/organizations is actually small in comparison to the size of the market. In this, no one company or individual can have complete control over the quantity of the product being sold. If the price of the product goes up or down, then the rest of those within the industry must adjust to the price within the market. In Perfect Competition, businesses/organizations sale the same products/services, the businesses/organization may/may not sale the exact same product/services, but they are very closely related. In this the consumer, can see certain

differences of the products/services to determine what product they will invest in. In essence, there are not any kinds of branding that can be put to the product. In Perfect Competition, businesses/organizations/individuals are totally free to enter and leave the industry as they see fit. The business/organization/individual is not bound by government rules and regulations, costs to start the business and other barriers to entry. Again, those that enter the industry are very able to leave the industry, sometimes with very little cost to the business/organization/individual. In Perfect Competition, the consumer is very aware of the product/services pricing, hence, one business/organization/individual is not able to sale the product/service at and extreme rate that the going rate on the market. Every business/organization/individual has all of the information about the costs that are set by others within the market. In this there is perfect knowledge of the prices of the products/services. The businesses/organizations/individuals are not able to product the product any quicker or less expensive than the others because the production of the product is totally similar. In turn, there is not any kind of pricing strategy within the Perfect Competition structure. If there is a pricing strategy within the Perfect Competition structure, it is for each business/organization/individual to keep prices relatively the same so that the consumer will not go to anyone else for the product/services. There are not really any real world examples of Perfect Competition. The closest examples of Perfect Competition would be within the agricultural industry. The way that Perfect Competition would be understood in this standpoint would be, Alex decides to plant and grow carrots. When Alex grows these carrots, it is understood that all carrots are the same. The grocery stores

sales carrots, but he decides to sale carrots on the side of the road in a cart. There is not anything special about the carrots that Alex grows. Alex cannot sale the carrots at a higher price than everyone else. The going rate for the carrots would be two dollars per unit; Alex would sale his carrots for two dollars. Alex can enter the carrot selling market at a whim to make some money, but he can leave the market after all of his carrots are sold. In the short run, Alex selling carrots would be a perfectly elastic demand. The demand curve is the same as the average revenue curve and the marginal revenue curve see sample chart below: http://www. peoi. org/Courses/Coursesen/mic/Resources/Image124b. gifThere must be a certain relation when it comes to the prices/costs of the product/service and the amount of yield. The supply curve is optimistically slanted. When it comes to the long run manufacturing, a balance between amount of cost and the quantity of production and the profit in which the business makes. If there is any loss, then the business needs to shutdown. When all aspects are achieved, the balance would be P = AR = MR = MC = LRMC = ATC = LRAC. In all, within the real world, Perfect Competition does not exist or makes sense. The other thing is that Perfect Competition will allow for a great benchmarking opportunity in theory, but not in practice.

Monopolistic Competition

Within the structure of Monopolistic Competition, it is very similar to the Perfect Competition structure. It is similar in the way that there is a great amount of small businesses/organizations/individuals in this structure. It has a relatively entry into the industry and exit from the industry. The

products/services in this structure are similar, but not the same. Competition within the Monopolistic Competition structure is highly competitive with each having some area of market control. Monopolistic Competition in effect is a cross between Perfect Competition and the Monopoly. Within the real world, there are perhaps half of all production are monopolistic competitive businesses/organizations/ individuals. The examples this structure can be found in the clothing, restaurant, and convenience store industry. It is remarkable that because of the control within the market of Monopolistic Competition, the industries that are comprised of this structure are faced with a negative slope demand curve. Within the Monopolistic Competition structure there are a large number of businesses/organizations/individuals with some market control, but not total. Within this structure, the population is highly competitive. The products/services that are sold by those in this structure are similar, in which they are comparable; there can be some noticeable differences, physically with the products/services. Those that invest in the products/services know that there similarities, but also differences in the products being sold. In the Monopolistic Competition structure, there is relatively easy entry into the industry and exit from the industry. Those that are in this structure are not totally restricted by regulations by the government. There is a start-up cost, but to look at it, it is not something that can be construed as a barrier of entry. The consumers in this structure do not have total knowledge of the products/services that they are being sold, but have a great amount of if to make an informed decision in the products/services that are being sold to them (the consumer). In looking at this structure, as stated earlier, the products/services are similar

with differences and the consumers actually know the differences. In certain cases, there may be no differences at all, but the consumer may see any differences because of possible branding of the product. In this structure, the products/services may be the same, but the support of services may be different. The difference between Monopolistic Competition and Perfect Competition is that this structure (Monopolistic Competition), the business/organization/individual is the price maker. Price maker is where the consumer or the seller has some type of market control to affect the prices/costs of the products/services that are being sold. In this the Monopolistic Competition is similar to the Monopoly in the fact that the price/cost is larger than its marginal revenue, this is known as short-run. Within the Monopolistic Competition structure a business/organization/individual features a relative elastic demand curve, see sample chart below: http://wps. prenhall. com/wps/media/objects/475/486957/screencaps/21_18. gifEach one in this structure are allowed to sale a within a wide area, but the prices/costs of the product/services are fall within a specific price range. For the analysis of the short-run production Monopolistic Competition is drive by profit maximization. The business/organization makes a great quantity of the products/services that bring in the most profit. Since in the Monopolistic Competition structure, the businesses/organizations/individuals have some type of control and there is a negative demand curve, the tuning when it comes to creating a balance with the long run must come to the conclusion of MR = MC = LRMC and P = AR = ATC = LRAC. An example of the real world application of Monopolistic Competition would be in the auto repair industry.

There are many automobile repair centers in different areas of the country. There are repair centers that specialize in a specific area of repairs, such as, transmission repair, brake repair, engine diagnostic and repair, etc. In this perspective, each repair center can set their own prices including parts and labor. If the consumer feels that the price is too steep, they are able to go to another repair center. The other thing that can happen is the manager or the owner of the garage can offer services at a reduce rate or discount in order to keep the business of the consumer.

Case Study in Monopolistic Competition-A Case Study of Monopolistic Competition: The Motor Vehicle Repair and Servicing Industry

In this case study, it states that the usual small auto garage in Britain is dirty and in disorder with engine hoists and other equipment, with workers and a radio on high volume. It goes back to say that in the previous years the repair of automobiles were done by the chauffeur and blacksmiths or it could have been outside the scope of both. This was before World War II. As the production of the automobile grew, so did the need to maintain and repair them. At this juncture people were needed to be trained in the servicing of automobiles (auto mechanics). After World War II, the market for auto repair actually grew very fast, so fast that there were not too many barriers of entry. In some time, there were moves to instill some qualifications for the repair industry and to bring about some way to impose barriers of entry into the industry. Over time, the automobile repair industry has grown making it a Monopolistic Competitive industry. In Britain, there are over twenty thousand repair shops, with over seventy-five percent of the repair shops

having ten or less employees and an average turnover of £150, 000. In the end, there are a great amount of specializations that share in the automobile repair industry. In Britain and the United States and other countries around the world, there are many auto repair businesses and the industry is a highly competitive one. These people are able to set their prices/cost of repair, while the consumer is allowed to make choices into where they want to have their automobiles repaired at and what quality and cost they are willing to pay.

Oligopoly

The Oligopoly is a minimum amount of large businesses/organizations that control certain production of products/services. In this, the market can be controlled by a few organizations or by a great deal. When it comes to the Oligopoly structure, the more businesses/organizations that enter into a particular industry the more that the Oligopoly transforms into the Monopolistic Competition, if there is a minimum amount of businesses/organization within this structure then it is a Monopoly. The Oligopoly has a great deal of influence of control within the market of that particular industry. In the Oligopoly, firms do not have total control of the supply base as is marked by a Monopoly. Due to the size and the control of industry, this would make the businesses/organizations within this structure co-dependent. The way that one particular business operates can/will influence the others. In this structure, sometimes there is a need for businesses/organizations to come together to assist in the making a profit. When this happens, though, it can have serious consequences for the

companies. For example, this can be the point where the government becomes involved. An example of this is when T-Mobile and AT&T, competing cell phone companies attempted to have a joint venture in the 4G wireless market. The competing companies at this phase would have been interdependent, cooperating with each other. If left unchecked, the two companies would have had control over the data packages and the way that wireless phones would have communicated. Within the Oligopoly, the businesses/organizations become trendsetters as it pertains to technological advancement. In the Oligopoly structure, there are a small number, but large businesses/organizations that have control over the market of a particular industry. Within this structure, the products that are sold can be the same or have similarities just the brand name is different. The barrier of entry into an industry in this structure can be encompassed by patents, government rules and regulation, start up costs and brand name. Within the Oligopoly, the business/organization will normally attempt to keep pricing of products/services persistent, meaning; they try to generally keep prices the same. The reason for this is that the competition will either offer the product/service at the same price to the consumer or will drop the price down to get an edge. When it is all said and done, the business/organization will use advertisement in order to gain the consumers to the product/service. When the business/organization feels as such that a balance needs to be made for the sustaining or the survival of the company, the Oligopoly will decide to merge with other companies to make a stronger business/organization, to which, they will have a way to establish a firmer control of the market. An example of this would be Alien ware. When Alien

ware first started to develop high-end computers, they became a threat to other computer companies, one in particular, Dell, had decided that they needed to merge with the company in order to keep their business sustainable. When a company within an industry sees another company as a threat, they will sometimes merge with that particular company and cease to sell that company's product/service. Another thing that the Oligopoly will do is to conspire to come together and cooperate in order to drive prices/costs up. In this way these businesses/organizations will tend to act like a Monopoly. The short run of the Oligopoly business/organization is the kinked demand curve. This kinked demand curve is shown to give knowledge of the rigid pricing. There are two things that explain this: 1) there is more elasticity as it pertains to price increasing and 2) there is a decrease in elasticity as it pertains to price dropping. The kinked demand curve has the recent amount (Qo) and price (Po), see example chart: http://www. economicshelp. org/images/micro/kinded-demand-curve. jpgTo explain this, if a business/organization within the Oligopoly raises the price in their product/service, they can/will lose consumers to the rivals which will lower the demand. If the business/organization in this structure matches any price drop, then the demand is raised and the production of the product/service is also raised. The final piece of the puzzle as it pertains to Oligopoly structure is game theory. Game theory is the term used to describe the method in which businesses/organizations make strategic decisions. In this respect, in each game there are 1) players-the business/organization, 2) strategies-decisions that the players make as it pertain to pricing, marketing, etc. and 3) payoffs-what the players (business/organization) receives or loses for

being in the game (profits and losses), see example chart: http://4. bp. blogspot. com/-Q4TQ3rnn7bw/UHbUFBvPt7I/AAAAAAAADXM/xR0n1I6e1zI/s1600/appvamz. bmpIn the end there are good and bad of the Oligopoly structure. The bad being that in this structure, resources are not economically doled out. Businesses/organizations that have some sort of market control over the product/service within the industry because of the prices of the product, the high demand, and the least amount of production. The other thing is this develops within a given society the haves and the have-nots. The good of this structure is that businesses/organizations are among those that are innovative in the technological advancements. The other thing is that Oligopoly businesses have the advantage of being able to mass-produce products for the consumer.

Case Study of Oligopoly Structure-OPEC (Organization of the Petroleum Exporting Countries)

When looking at the Oligopoly structure, the one organization that can be thought of is OPEC. OPEC was started in 1960. OPEC is an agreement of oil producing nations in the Middle East and a Western nation includes members: Iraq, Iran, Saudi Arabia and Venezuela, etc. These nations have comes together for the economic developments through its member countries oil and petroleum. OPEC had come together to get a handle on how much crude oil is produced and to control the price/costs of the oil sold. In 1973, during the Yom Kippur War, the United States had sided with Israel and OPEC had colluded and placed an embargo, this caused the Oil Crisis in 1973, which lasted for one year. More recently, as of 2000, OPEC had

decided to lower production and exportation of crude oil, when this came about the price of oil immediately jumped. This is something that has had consequences for the world, especially the United States, since this country is the second largest user of oil and petroleum, only behind China consequences are that the United States has been in financial crisis since and the world's economies have not been doing well since then.

Monopoly

The final structure is the Monopoly. The Monopoly is the single business/organization that has control of a specific market within an industry. In the Monopoly structure, the product/service is unique, in which no other company partakes or is able to benefit from reproduction of the product/service. The business/organization is the only supplier. The barrier of entry in the industry is extremely difficult; the exit barrier is also daunting. The barriers include ownership of all resources, patents and copyrights, high start up costs and more governmental control. In the Monopoly structure, because of the single supplier and seller, this structure is negatively sloped demand curve, see example chart: http://classconnection. s3. amazonaws. com/916/flashcards/713498/png/cpd. pngThe Monopoly is the price maker, because they are the business/organization within a particular industry, they are able to set the prices for products and services. This would mean that they can raise or lower prices as they see fit, without any drawback from the consumer. In the real world, the utility companies are actually monopoly. In this perspective they utility companies can set the rates in which the customers would have to pay for each month. As a matter of fact, each year

the utility companies raise the price by a few percent in order to maintain service and better serve the customer. The Monopolies are innovative because they are the only ones that are selling the product/services. They can raise the production or lower production and raise prices. The business/organization within the Monopoly structure is driven by profit maximization. Within the Monopoly structure, there are some issues that arise. The business/organization are the ones that set price and output of products, because of this, they typically raise and lower prices to the consumer. They are also able to treat labor in a way that can be demeaning. In the economy, this structure really lends itself to disparity among the classes, the upper class (rich and wealthy) and the lower class (poor and needy). The business/organization is able to have powerful influence within the government. This is where the lobbyists come in and the government may pass laws accordingly which may not be good for its citizens as a whole.

Case Study Monopoly Structure-The NFL

The NFL (National Football League) was started in 1920. When from then until now, they have controlled professional football, even becoming the " National Past Time", looking at this league as a Monopoly, the entry barrier of other leagues has been very demanding, with each of them ending in failure. The only league that had the staying power was the AFL (American Football League). By 1970, the NFL and the AFL had merged to become the current NFL, with the previous NFL becoming the NFC (National Football Conference) and the AFC (American Football Conference). It is remarkable to note that the AFL was the only league that gave the NFL any type of

competition. In 1985, the now-defunct, USFL (United States Football League) had sued the NFL for breaking the Sherman Anti-Trust Act for being a monopoly. Even though the USFL won the lawsuit, they were rewarded $3. 76 in damages. The NFL control television rights to their games, they control the limits that the teams can pay for their players (salary cap) and they control how much the owners get. The USFL was innovative in the way that football was played as a whole. As a matter of fact, the USFL was the league that started the salary cap that the NFL now uses. The offenses that teams have used or are using now came from the USFL. The one thing that hurt the USFL and any other league is that the consumer (audience) is totally gauged with the NFL. In conclusion, with the four structures there are extremes and middle grounds. The Perfect Competition, which is practical in theory only and the Monopoly at the other end of the spectrum, which does more harm than good. The middle of the road, the Monopolistic Competition and the Oligopoly are the two best structures and the most widely used structures in the economic world. The ideal would be the Perfect Competition structure, but if it was viable this world would be a utopia. On the other end, the Monopoly eventually can hurt a society.