

# Microeconomics

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Admission/Application Essay, Macro & Micro economics Oligopolies and monopolies are able to main their dominant position in the market since it is expensive for the potential rivals to enter the market. Some of the barriers of entry include: (1) economies of scale- in this case, the incumbents in the market have already exploited the economies of scale to deter new entrants. (2) Network effects-this is the effect of great number of people using a specific good in the market. The incumbents create a strong network that makes it difficult for new entrants to join. (3) Ownership of a scarce resource- an airline controlling access may present a barrier of entry to new firms in the industry. (3) High set up costs- new enter cannot join due to sunk costs that the firm can incur. (4) High research and development costs- oligopolies spend a lot of money in R& D since they have large financial reserves. Barriers of exit are the aspect of the industry that can make a firm reluctant to leave a certain industry while the firm earns diminishing returns. The causes of barriers of exit include long-term obligations and non-financial objectives. To solve the problem in an airline industry the firm can adopt new capital and cost structures.

An oligopoly market structure has few firms that dominate. Major airlines such as British Airways (BA) and Air France operate on routes that have few competitors. The two major airlines Air France and British airways have small airlines that cater for people on holiday and specialist services. Oligopolies have concentration ratios that measure the proportion of the total market share in a number of firms. Oligopolies have few rivals while they are independent and cannot make decisions in isolation. Monopoly entails a single supplier with a controlling share of more than 25 percent. The

formation of monopolies in the market is due to an exclusive ownership to scarce resources, patents on an idea, sound, image, or design on own material. The attributes of monopolies include maintenance of super normal profit that depends on the degree of competition and no close substitutes. Monopolies benefit from economies of scale since they avoid redundant infrastructure. A domestic monopoly is dominant to own territory that can enable it to penetrate the international markets.

#### Works Cited

Sinclair, Robert A. " An Empirical Model of Entry and Exit in Airline Markets." Review Of Industrial Organization 10. 5 (1995): 541-557.