Microeconomics market structures

Economics, Microeconomics

According to the principles of microeconomics market structures can be identified as perfect competition, oligopoly or monopoly. In our society today and the way business is conducted, market structures are not strictly defined by on of these particular types. They can be composed of a mix of them. A market structure that has a higher level of competition can be more efficient than those that have lower levels of competition. We know this since lower competition increases the producer's surplus; in return it decreases the consumer surplus.

The loss in the consumer's surplus is means it will be greater than the increase in the producer's surplus. This leads to what we have learned as a deadweight loss. A perfect competitive market can also be thought as the most efficient form of market, where consumers are the most beneficial. Realistically it is difficult to identify and choose a perfect competitive market. Perfect competitive markets have the following characteristics: * No entry or exit barriers: These markets should have their structures set up with no entry or exit barriers.

Simply meaning that new suppliers can invest in their company without any significant capitol or risk. They can also exit the industry without facing any significant loss. *Infinite buyers and sellers: the markets have unlimited or infinite amounts of producers that are willing to sell their products to an unlimited or infinite amount of buyers. This is to ensure that there is no supplier or buyer has a significant market share. This is to prevent others in the market from being able to determine the market price. Perfect Information: This is when all competitors in the market have to provide and share equal information among/between each other. Suppliers and buyers alike, go forward and profit from having full and complete information, just like the other suppliers and buyers in the markets. The above conditions benefit consumers as these firms develop and become price takers. The price of the product will be decided by the supply and demand. The equilibrium point is where the supply curve and demand curve intersect and establish the market price of the product.

Therefore, in all aspects of business the price is equal to marginal cost. If we look at the short-term affects then there is the possibility for a firm to make a profit. However, this is not the traditional outcome and will quickly attract other firms in the industry. In turn it will elevate the level of supply demands. As a result of this increase, the products price will decrease. Simply meaning that in a perfect competitive market it is not feasible for a firm to profit in a long-term aspect.

This doesn't necessarily mean that a firm will not earn any profits. It means that the profit earned covers all the costs to produce the goods. This can include interest and liability. In turn, the long-term outcome for the firm in a perfect competitive market will earn a normal profit. The profit will always be significantly less then firms in a monopoly or oligopoly would earn. Capitalism is based on the principles of the free market. In free markets the supply and demand variables help determine the quantity of the goods produced along with its market price.

There are many foreign countries and their firms that have tried to implement free markets but have not been very successful because there has never been that type of market in international transactions. This is because global trade and national trade are derived from the same principles. The foundation of international trade is the principle of comparative advantage. Each country has different sets of resources. These variables are different because some countries have large populations, which influence the labor pool, especially when some people have specific developed skills in a one industry.

For example, if people in Antarctica wanted to drink coffee that would have to or import them since the climate is not conducive to growing it. If Antarctica decided not to use international trade, they would either have to go without coffee or grow it in an un-naturalenvironment. The cost of growing and providing coffee would increase the market price. Instead since Antarctica participates in international trade, they have the ability to focus and provided coffee to its countries consumers. Simply meaning that countries that have comparative advantages get it from their products for which has the lowest opportunity cost.

If these countries focus on products that create their comparative advantages then the total output would be greater for the consumers of the world than if each country tried to individually produce everything. The marginal cost or the cost of producing a new product usually cost less than the average cost of producing a good. This is because the additional production usually is achieved without making any substantial new investments. (V, Kumar, 2008). Globalizationallows production to shift to the people and places that are in a position to produce the best products at the most competitive price (V, Kumar, 2008).

When the total supply demanded is more, the consumers will benefit since the price will be lower. Simply meaning that in the absence of international trade, consumers around the world ended up having fewer suppliers who could provide the necessary good to produce their products and meet their demands. Ultimately letting the supplier controls the market and its price. If we consider an assignment we have earlier in this class, let us consider the automobile industry of the 1950’s and the present industry. In the 1950’s there were only three companies who produced and sold cars in the United States.

Based on what we learned in this class it is defined as an oligopoly. The automobile industry was a highly profitable industry in the 1950’s. When international cars were imported in to the United States, they were competitively priced much lower than the cars produced on home soil, and the imported goods had better quality with more fuel efficiency. In turn consumers quickly shifted their interests andmoneyto the imported vehicles. This caused local producers to be forced to lower their prices and improve their standards in order to stay competitive.

International trade brought more options to consumers. It’s providing higher levels of competition and improved quality and efficiency. With free international trade, producers can provide and compete for customers across the world. Consumer surplus is defined as, “ An economic measure of consumer satisfaction, which is calculated by analyzing the difference between what consumers are willing to pay for a good or service relative to its market price. A consumer surplus occurs when the consumer is willing to pay more for a given product than the current market price” (Investopedia: dictionary).

When the number of suppliers in the industry increases it leads to higher levels of competition, and these market conditions found in a perfect competitive market end up being more profitable to consumers. Social cost are one of the variables that lack in all studies of economy however, as our society advances, so do social costs and this is reflecting in the markets. We have learned a lot about comparing the cost of a product and revenue generated from it In turn if we take into account the growing effect of social costs and the social benefits that can emerge from this trend.

We cannot forget that there are also marginal social costs. The marginal social cost becomes greater with each additional thing that happens that is considered undesirable or also knows as un-anticipated cost activity. For example, an oil company that is drilling must extend its hours on Friday to reach the minimal amount of oil harvested. This will mean there will be a marginal cost for each additional hour the oilrig must operate to reach its quota. Marginal social cost would be the upward slope that shows the cost increasing with each additional output.

Marginal benefits would be the opposite as marginal social cost with a downward slope. Environmental factors show the relationship connections between marginal social cost and marginal social benefit. Lets assume that all firms are constantly trying to reduce the level ofpollutionthat they create. This is not an over night process and it does require a significant amount of capitol. This would affect the marginal benefit. Now on a different hand lets assume that a company has been cited for not following the regulations that govern company’s pollution control. This company is now required to get up to code.

They are going to have to buy the new equipment that is required. This will inflate company's costs and may affect the company's ability to produce their products competitively. This could create many problems for the company but will ensure they are following required rules. Since it is for the good of society it means that the marginal social cost is beneficial than the marginal social benefit. Proving that marginal social cost and marginal social benefit lines cross where the two are equal. This class have class has taught many aspects and principles of microeconomics.

It began with supply and demand and ended with marginal costs and benefits. All of the principles affect local and international firms, as well as consumers that are in both places. These studies will continue to evolve as business and society moves forward in the future.

Work Cited * V, Kumar, VK. (2008, July 28). Globalization: who benefits from it. Retrieved from http://www. helium. com/items/398030-globalization-who-benefits-from-it * Investopedia: dictionary. (n. d.). Retrieved from http://www. investopedia. com/terms/c/consumer_surplus. asp