

The world of imperfect competition

[Literature](#), [Russian Literature](#)



The World of Imperfect Competition Mukoma, Robert. Academia Order Essay Monday, 12 August This paper endeavors to eluci differentvariations of global market structures, with an emphasis to imperfect competitive markets. To achieve that purpose, examples researched from online business publications and journals have been featured. Definitions to financial terminologies are consolidated taking a keen considerations to the study work provided in order to achieve a broader understanding of the topic in question. As much as possible the paper has encompassed recent and practical examples to explain each type of market structure featured. To introduce this paper, a brief startup article on Google Documents vs. Microsoft office suite opens the discussion on how parameters that deviate from a perfect competitive market structure drives a the competition into business rivalry, creating an oligopolistic market structure where decisions taken by one Firm affects or influences decisions taken by a competing firm. To further the debate an article from CNNMoney's Fortune publication introduces a recent development between Google+ and Facebook, businesses that would otherwise be symbiotic in nature, turn to be suspicions of each other and develop similar products that on the long run will compete against each other. Keywords: Perfect competition, monopoly, monopolistic, oligopoly The World of Imperfect Competition In 2007, Google unveiled Google documents application, a free word processor, and spreadsheet. The company's intentions might not have been to bite a chunk of Microsoft's core franchise- Microsoft office suite; but it affected downwards Microsoft's expected earnings by a few million dollars. Some users opted for the free word processor and spreadsheet as an alternative for the more

superior and expensive Microsoft's word and Excel spreadsheet applications. In the recent past Facebook having borrowed from Google's playbook unveiled a search service dubbed Graph search. On the short-term it was not intended to directly compete with the search engine giant Google, but it definitely sent a clear message that there was intention to dislodge Google from an almost monopoly in the search service business. Mark Zuckerberg, Facebook's co-founder and chief executive, insisted that Graph search was not a web search. Facebook recruited a number of Google engineers to develop the innovative search tool that has superior queries compared to Google search. Although Graph search was initially limited to search within Facebook's social network for people, photos, interests, and places, it could actually be a legitimate business for Facebook when fully fledged. 1 (Miguel, 2013). In 2011 Google responded by launching the Google+ project, which according to Vic Gundotra, the senior vice president who oversees Google's social products is simply an enhancement for Google search application. Google denies that Google+ is a competitor to Facebook despite irrefutable similarities in application. (Danny, 2011). They are both social sharing tools. Market structures exist within two extreme parameters, i. e. perfect competition and monopoly. In a perfect competition, all four competitive assumptions are met, i. e. many buyers and sellers, no barriers to exit and entry, homogeneous product, and perfect knowledge. (Economic Concepts) Forces of demand and supply determine the price, therefore, sellers have no absolute power to increase the price lest they lose market share due to availability of substitute products. On the further opposite, a monopoly market structure equates to a single seller, who essentially forms the

industry. Entry to such a market is constrained by high costs, social and political influence. An example would be power supply in many countries is done by a single company. A single firm supplies goods or service, sets the price, and enjoys huge profits due to lack of substitute products. Imperfect competitive market structure exists between the utopia of perfect competition and monopoly when there a breach of one or more of the mentioned competitive assumptions occurs, it consists of many firms within an industry in which one, or two of the firms drive the market dynamics based on either product variations or the interaction between rival firms. Advertising in imperfect competition can create an impression of a competitive edge and trigger price competition, which would attract new entries or create brand loyalty and present a barrier for entry. In some cases, price discrimination occurs within different customer demand segments. There are two broad types of imperfect competition, i. e. monopolistic and oligopoly. A Monopolistic competition occurs in an industry with many firms offering differentiated products, with easy entry and exit conditions unlike in a monopoly. An example would be pizza restaurants; they all offer pizzas but vary presentation, sizes and enjoy some independence in setting prices. On the short run, monopolistic firms like a monopoly can increase prices and enjoy economic profits but the markets responds instantaneously by shifting the demand for the product from the firm downwards. The profits on the short-term act as an incentive for new entries that provide substitute products, inevitably the firm has to lower its prices in order to sell more thus reducing its margin. This shift indicates a profit maximization solution, i. e. the demand curve is tangent to the average cost. When firms are making

losses, some exit the market place hence reduce availability for substitute products leading to an increase in demand for the product from existing firms, consequently they respond by increasing prices, and thus begin the process of a reverse long-run equilibrium. In this market, long run equilibrium occurs when a typical firm is earning zero economic profit.

Oligopoly, allows for a few sellers that control the market place. They produce almost similar products hence compete for market share. A decision taken by one firm leads to a reaction from the other firms. When Nike signed Michael Jordan, who was to become an iconic athlete of all times, they not only gained a hero athlete but also an eloquent spokes person. Air Jordan brand from Nike surpassed a billion dollars in sales. Reebok reacted by signing Shaquille O'Neal. 2 (Omar). Oligopolies are interdependent, constantly monitor, and keep guessing their rivals' next move, as clearly illustrated earlier in the paper by the example of Facebook vs. Google+. In conclusion, Imperfect competition portrays the realistic global markets scenario. According to Economic Concepts, " Perfect competition model is hotly debated in economic literature. It is argued that the model is based on unrealistic assumptions." Therefore, the concept of a perfect competition is a comparative benchmark to define other forms of competitive markets.

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