

The history of characteristics of monopolistic competition economics essay



**ASSIGN
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1. 0 Introduction

According to the Dominick Salvatore (2009 p. 3) microeconomic theory is perhaps the most important course in all economics and business programs. With it we can answer or understand such question as why the price of gold rose sharply in few years; why the price of petrol rose dramatically in 2008s-2010s and declined in 2011s; why the price of sugar rose in few years; why the cereal rose in few years and others. By contrast, microeconomics is the study of individual house household or firms (business units). It focuses on particular parts of the economy. Microeconomics theory provides the tools for understanding how the other economies operate.

2. 0 Introduction to Monopoly

According to the Cambridge dictionary (second edition) monopoly in microeconomics mean is when a company or organization is the only one in an area of business or activity and has complete control of it. In market structure under the monopoly there is a single seller and large of buyers and selling products. It have no a high entry and the existence of barrier and have no close substitution to other vendors to enter into the market.

Examples of products in monopoly market in our country are water, electricity and local telephone services. Our home telephone services are Telekom Malaysia (TM Berhad). Obviously, Telekom Malaysia is a monopoly in market. Through this it can let us know the meaning and reason causing monopoly. Besides that, it also know characteristic of monopoly and how affect or effect in market structure.

3. 0 Characteristics of Monopoly

3. 1. 1 Single Firm

Under the monopoly single seller is that the monopoly seller is the market.

The market demand for a good is the demand for the output produced by the monopoly.

3. 1. 2 Barriers to Entry

Barriers to entry is anything are designed which artificially to block or prevent the entry of firms entering a market profitably. There are some of the key barriers to entry are patents and copyrights, limit pricing, advertising, international trade restrictions and development expenditure.

3. 1. 3 Price Maker

Single firm produces goods and have a monopoly in an entire market that means it holds a large majority of a stock. With having a large majority of a stock and a single firm makes a decision affect the price of an item in market. As a result, seller has full control over the market price.

3. 1. 4 Unique Product

Single firm produces unique the product and no close substitutes for the product with each other.

For example, there is presently no close substitute for Berita Harian, the only Malay language newspaper in Singapore.

4.0 Hypothetical Demand, Total Revenue, and Marginal Revenue Faced by a Monopolist

Table 4.1 Hypothetical Demand, Total Revenue, and Marginal Revenue Faced by a Monopolist

Figure 4.1 Hypothetical Demand and Marginal Revenue Curves of a Monopolist

Since D is a negatively sloped, MR is lower than P. The MR values are plotted at the midpoint of each quantity interval. The MR curve starts at the same point as the D curve and at every point bisect the distance between D and the vertical axis. MR is positive when D is elastic. $MR = 0$ when D is unitary elastic and TR is a maximum. MR is negative when D is inelastic.

Table 4.2 Short-Run Total Cost, Marginal Cost, and Average Total Cost

FIGURE 4.2 Short-Run Equilibrium of the Monopolist: Marginal Approach

The best or optimum level of output of the monopolist is three units. This is given by point G, where $MR = MC$ (and the MC curve intersects the MR curve from below). At $Q = 3$, $P = \$6$ (point A on the demand curve), $ATC = \$4.50$ (point B on the ATC curve), and the monopolist earns \$1.50 (AB) per unit of output sold and \$4.50 in total (shaded area ABCF). At $Q < 3$, $MR > MC$ and total profits rise by increasing Q. At $Q > 3$, $MC > MR$ and total profits rise by reducing Q.

5.0 Summary

Characteristics of Monopoly are single firm, Barriers to entry high, unique product, power of firm over price and advertising. Single firm earns more

profits in this type of market structure because no close substitute product to replace it. Barrier to entry is high because want to protect the single firm in market. A firm produces the unique products to avoid others firms to produce it. Monopolist has power to control prices of the product. Last, it consists of advertising in this type of market structure.

6. 0 Introduction

There are many types of market structures characteristics in which will affect the price and nature competition. For example, number of buyers and sellers, product differentiation, and the ease of entry into and exit from the market. Market structures refer to the competitive environment within which a firm operates. Market structures divided into four basic types which is perfect competition, monopolistic competition, oligopoly and monopoly.

7. 0 Perfect Competition

Perfect competition is a type of market in which there are large number of buyers and sellers. The sellers sell identical or homogeneous products. There is also free entry and exists of the firms. Both the sellers and buyers have perfect knowledge of the market.

7. 1 Characteristics of Perfect Competition

7. 1. 1 There are many buyers and sellers of a commodity

Reynolds, R. L., (2005, p. 2) points out that the idealized perfect competitive insures that no buyers and sellers has any power or ability to influence the price. The perfect competitive market is price takers. Each buyer buys the commodity at the price determined by the market condition.

7. 1. 2 Homogeneous product

The product of an industry in which the outputs of different firms are indistinguishable compare with another product. The homogeneous products are the product where the buyers could not differentiate the products of one seller to another seller.

7. 1. 3 Perfect knowledge

In perfect competition firms, consumers and resource owners have perfect knowledge of all relevant prices and costs in market. No buyers to pay more a price of the product higher than the prevailing price. Similarly, sellers will not set or charge a price higher or lower than the prevailing price.

Advertisement has no scope in this type of market.

7. 1. 4 Resources are perfect mobility

This means that inputs or resources are free to move in market. Firms can enter or leave the industry in the long run without much difficulty. That is, there are no artificial barriers like copy rights and trademark or natural barriers such as huge capital requirements to entry into and exit from the industry.

7. 2 Monopolistic Competition

In monopolistic competitions there are contains many sellers but the products are differentiated. Many sellers produce products are similar but not identical. There are following features of monopolistic competition.

7.3 Characteristics of Monopolistic competition

7.3.1 Differentiated products

Differentiated products are products that are similar but not identical and the products are close substitutes products with each other. Sellers cannot set their prices of the products very different from each other. In physical differentiation is through differences in design, material, color and others. Further differentiation of a particular product may be based entirely on some seller location of his shop, kind of service they provide and fair dealing.

7.3.2 Large number of firms

Under monopolistic competition there is contains a big number of firms satisfying the market demand of the product. These firms do not produce perfect substitutes but the products which are relatively close substitute for each other. For instance, in soft drink industry, the prices for a can of 330 ml soft drink range among several brands on market today such as Pepsi, Sarsi and Cola-cola

7.3.3 No barriers to entry and exit

Firms can also and leave a monopolistically competitive industry. The monopolistic element arises from product differentiation. For example, if 'MAS' wants to become a company top 10 in international airline system, this firm must find some difference in term of quality of service or facility equipment are provided by the firm.

7. 4 Oligopoly

According to the Dominick Salvatore 5-edition Principles of Microeconomics (2009, p. 330) oligopoly is the form of market organization in which there are few firms of a homogeneous or differentiated product.

3. 5 Characteristics of Oligopoly

3. 5. 1 Few numbers of large firms

The firms are few but the size of firms is large. Few firms control overall the market to ensure few number of large firms have a fair amount of market. For example of the oligopoly is Proton and Perodua.

3. 5. 2 Interdependence

Each firm under the oligopoly is can affect the market, making each firm's choices dependent on the choices of the other firms. So, they are interdependence.

3. 5. 3 Barriers to entry

Oligopoly is meaning only few firms in the industry with barriers to the entry of new firms. Firms recognize their mutual dependence.

3. 5. 4 Advertising and selling costs

The firms want to increase a greater share in the market and to maximize sale. So, this firm will expend more money on advertisement and other sale promotion. Advertising and selling cost are playing an important role in this type of market structure.

3. 5. 1 Homogeneous and differentiate products

3. 5. 2 Homogeneous Product Oligopoly

. In market, industries produce intermediate products and sent to other different industries for manufacturing their products. For examples of the homogeneous products are steel and aluminum industries.

3. 6. 2 Differentiate Product Oligopoly

Products manufactured in these markets are for personal consumption. For example of the differentiate product oligopoly is beer, breakfast cereals, detergents, soaps, computers and others.

3. 7 Monopoly

Monopoly is a single seller and sell the product is unique. Thus, in market structure there are many buyers and selling the product and there are no close substitutes with each other. For example that gave by Dominick Salvatore (2009, p. 287) The Aluminum Company of America (Alcoa) is a classic example of how a monopoly was created and maintained for almost 50 years. The monopoly was created in the late nineteenth century when Alcoa acquired a patent on the method to remove oxygen from bauxite to obtain aluminum.

3. 8 Characteristics of Monopoly

3. 8. 1 Singer seller in the market

There are no close substitutes of the product in the market and no more other competitors in the market. Monopolist can control or affect price is evidence of its monopoly power.

3. 8. 2 Lack of competition

Under the monopoly in market structure there are lacks of competition because there are no close substitute products in market.

4. 0 Summary

The characteristic of market which is classified as one of four market models are perfect competition, monopolistic competition, oligopoly and monopoly.

Perfect competition consists of many sellers and buyers of a commodity, homogeneous products, perfect knowledge, and resources are perfect mobility and no ability to control over the price of a product. Monopolistic competition is involved a large number of firms, differentiated products, no barriers to entry and exit and using advertising to shift demand. Oligopoly which is consist a few number of large firms, interdependence, barriers to entry, advertising and selling costs and homogeneous and differentiate products. Last, monopoly includes of singer seller, lack of competition, unique product and imperfect knowledge.

In question 2 the various characteristics between the four types of market structures which are Perfect Competition, Monopolistic Competition, Oligopoly and Monopoly have been discussed. These four types of market structure are different characteristics and it will affect the nature or artificial of competition and the price of the product. The figure 6 is shows about the differentiation of the characteristics of the following market structure.

Market structure

Perfect competition

Monopolistic competition

Oligopoly

Monopoly

Number of producers

Many

Many

Few

One

Type of product

Standardized

Differentiated

Standardized or differentiated

Unique product

Power of firm over price

None

Some

Some

Considerable

Barriers to entry

Low

Low

High

Very high

Non-price competition

None

Advertising and product differentiation

Advertising and product differentiation

Advertising

Examples

Parts of agriculture are reasonable close

Pepsi

Computer, oil

Telekom