Maximizing profits in different market structures

A specific markets structure depends on a number of interconnected characteristics. These characteristic may include but are not limited to; level of competition, product differences, ease of entering the market, potential costs of exiting the market, and the general strength of buyers and/or sellers. The struggle, or competition, between organizations to be more profitable and efficient helps drive a healthy market. This paper intends to point out the characteristics defining different market structures and their respective complications deriving from entering new markets. Additionally, each type of market structure will be observed to see how profit can be organically maximized.

Markets can be broken down into specific categories. Some of which include; oligopolies, monopolies, monopolistic and perfect competition. An oligopoly is a type of market that is controlled by a small set of sellers. Characteristics of monopolies can consist of organizations that are able to control the cost of a local good or service and lack of capitalistic competition. A perfect competition suggests a market that remains uncontrolled in terms of price manipulation; this is because none of the organizations are efficient enough to set competitive pricing.

Price determined in each market structure

Price management is an organizations ability to control the prices of its own goods or services. This indicates the range of competition organizations have within a specific target market. This is a strongly influencing factor on that market. Perfect competition and monopolistic competition structures contain many firms in one market. No one firm holds the majority of the market share. Oligopoly structure occurs when few firms are in the market.

Monopoly exists when only one seller is present for a given product. A product type base factor in market structure is non-price competition. The range of product differences is a determinant in this structure. Perfect competition, in this instance, would contain many firms that sell similar goods. There are few differences between the products or services that these firms offer. In a monopolistic competition structure, the goods or services will have some differences. In an oligopoly, the goods will have some differences that are more notable. Those in a monopoly will be, of course, all the same, since they are all produced by one firm.

Another non-price competition factor is advertising. In a perfect competition, each firm will produce the same goods. In this setting, non-price differences do not exist. Advertising is used by monopolies, but it is not really required since there is no other supplier for those goods and services. Oligopoly structure firms use advertising a great deal. Monopolistic competition firms use advertising, but less so that oligopoly.

Entry barriers for new firms into a given market help determine a given market structure. Perfect and monopolistic competition allow for relatively easy entrance into the market. In these cases, investment to join is generally minimal. Barriers in these cases are considered to be low. In oligopoly, the entry barriers are quite high. This is due to the need for considerable investment to join that market. Barriers are not considered a factor in monopoly since any new firm in the market would change the structure automatically.

In capitalistic economies, the primary market structure is always perfect competition. This structure will be used as a foundation for discussing the other types of market structures. Perfect competition exists when there are enough firms and sufficient demand to allow all firms to work at a productive level. This is considered impersonal competition.

The term perfect competition is used because it is the utopian structure for all economic trade. It means that the consumer gets the right price for their purchase based on the firm requiring only a marginal cost of return for production of that item. The firms are able to maximize their profits whenever they can keep marginal revenues above the industry marginal costs. Since many firms are contributing to the supply stream with the same items, the output in perfect competition is large enough to meet consumer demands.

Output determined in each market structure

In oligopoly, those pricing and outputs decisions are made not by the market but by the management. These are strategic decisions. The number of firms in that market is small. This means that their decisions can have a wave of effects in the industry as a whole. Each one of these firms pays attention to the actions of the others since they directly affect one another so closely. When one firm changes it pricing structure or alters its output levels then the rival firms will see an effect on their own revenues. This is why strategic planning is undertaken. Scenarios are considered at all levels of the operation to ensure that the management foresees as many possible outcomes of their actions. Firms in this structure tend to keep their prices at

similar ranges since it benefits them all. This is the source of standardized pricing across an industry.

In a monopoly, the firm can decide what price is advantageous to them. They are the diametric opposite of the perfect competition structure. Since the monopoly is its own motivator, it can choose to cut output so that it can maximize profits. It has no competitor to hold it in check in its pricing. There is a single producer and supplier for that product or service. No substitutes can be found to supplant their hold on that industry. The consumer who requires that particular product has to use that supplier regardless of price. Barriers to entry are extreme since there is no non-price competition present in this scenario. There can be no price takers in a market that is dominated by one supplier. Any firm who tries to enter the market will automatically change the structure to an oligopoly.

In monopolistic competition barriers may not exist to new firms, but there are both a multitude of buyers and a multitude of sellers. The firms offer products or services that have a difference from the other firms in the market. The firms devote a lot of their resources in making their products different from those of the other firms in their market. The fact that firms enter and exit from this structure freely means that the firms in a monopolistic competition structure will always earn zero economic profit ultimately. Those monopolistic competition structure firms will always produce output that will result in their profits being maximized. This was also true in perfect competition structure firms. Monopolistic competition structure firms also resemble the perfect competition structure firms, because they both follow the principle of maximizing profit. This indicates

that the firm will cut or stop production of their goods when they reach marginal revenues matching marginal costs. The distinction between these firm types is that the monopolistic competition structure firms are able to exert more control on the prices that they charge for their goods and services. This is due to the fact that the monopolistic competition structure firms have devoted considerable resources to making their product somewhat different and therefore unique from those of their competing firms. These firms have to consider their pricing carefully so that they do not push themselves out of the market altogether.