Market model patterns of change

Business

Monopoly market structure is a single firm producing and selling goods with no close substitute (Joel, 1999). This is associated with no completion in the short run, but with time, some firms may come up producing similar goods.

Monopoly power arises from various sources, including government regulation, ownership of strategic resources, the market size, and formation of mergers. Monopoly market mostly is an ideal situation, because pure monopolies do not exist. The American Power Company, which is initially known as American gas and electric company, replaced electric company, which existed since 1899. This became the biggest energy provider in the American market. American electric power ruled the industry in the 18th century, since there was no competition in the market.

At this period, it determined its prices and only few households could afford electricity. Since electricity was expensive, other forms of energy were used instead of electricity. This means it was still not a pure monopoly. Normally monopolies determine their own prices, but they cannot force buyers to buy from them. This implies that monopolies obey the law of demand (increase in price leads to decrease in the quantity demanded ceteris Paribas) (Joel, 1999). The American Electric Power Company earned supernormal profits when it had no competition.

This is when marginal revenue equals marginal cost as the necessary condition. Nevertheless, with time the market structure changed. More business came on board taking away the company’s monopoly power. Competition increased, causing the firm to lower its prices and to make its

services better to suite the market demand. This changed the market structure to oligopoly (Joel, 1999).

Few large market firms that take care of the market characterize oligopoly market structure. In this situation, American Electric Power Company, First energy cooperation, Exelon among other few companies control the American energy market. This is an example of an oligopoly market. AB is more elastic compared to portion BC. This is because competitors mainly influence firm prices.

At P* will be the optimal price of all firms in this market. If one of the competitors increases, its price from the optimal price to P1 the other firms in the market may not follow the trend, therefore the quantity demanded will decrease by a greater margin from Q to Q0. This implicates that it will lose in terms of profitability if one company increases its price in an oligopoly competition. On the other hand, if one of the competitors in the market decides to decrease the cost f electricity from P* to P2 by a bigger margin, the quantity demanded will increase by a lesser margin earning the firm losses. Therefore, in both the long run and short run of oligopoly competition price is rigid at point P*.

Various factors affect the competitiveness of American Electric Power to other players in the market competition. The carbon IV oxide legislation is likely to affect the company’s output. Most of its operation realizes greenhouse gases, especially fossil fuel. This is a leading cause of global warming, and the African states are demanding compensation from the

government. In addition, it is also demanded that nations that are leading in emission of greenhouse gases to cut off their emission to the environment.

This caused the government to legislate its operation that is not environmental friendly. This has a negative implication on the company's operations and the output level. Still on the environmental degradation policy the company is on the receiving end, since some states are embracing some legislation on aquatic life. Water used in the company's plant operation is supposed to support aquatic life. It means that the company has to minimize its water usage. Water is an essential input in plant operation, and most of the water used in plant operation is polluted.

This implies that the company has to cut down its input, thus leading to low level of output. Taxes are the biggest boost or treat to company competitiveness in a market. Other companies in the same industry producing renewable energy, such as wind energy, get incentives from the government. Currently the globe is investing heavily in eco-friendly forms of energy. Thus, political class and the government are investing a lot of money in this kind of energy. Other competing companies get incentives from the government with absolute legislation motivating for a higher level of output and ease in its operation.

This will heavily affect the long-term operation of the firm (Koen, 2009). Increase in the company's expenditure is another cause of imbalance in competition. Some companies use up-to-date technology in their operation. The company's labor force determines its outcome. In an economically

unfriendly environment, when the country inflation rate is high, the government may impose some unnecessary taxes to curb inflation.

This negatively affects the company's productivity level. Increase in price as noted leads to decrease for quantity demanded. Thus, the company may not meet its objective if the trading environment is unfriendly.

The company invests a remarkable amount of money into its renewable energy that lowers its expenses, thus the market price of its products becomes favorable to the consumer. First Energy Corporation builds on the ability of the company to supply electricity to individual residential customers to industrial companies and municipalities in general. This is an incentive for the company to provide products and services that have more utility to the final consumers. It includes price index to fit the consumer budget and income to attract more customers. On the other hand, Exelon is also determined to embraces environment friendly method in its electric and energy production.

This seems the main objective of the two competing companies. The world is evolving to green energy with minimal or no carbon emission. It means that energy producing companies will incur minimal expenses if they invest in renewable sources of energy. The pricing policy of the two companies is aimed at passing minimal expenses to their consumer. Production expenses are minimized by both companies with a sole aim of becoming efficiency in service delivery (Peter, 2007).

The American Electric Power needs to revise its pricing policy. From its capacity of 36 thousands megawatts, the company should provide the best

market price. To accomplish this and to satisfy its 5 million customers' needs, the company needs to do the following measures: to cut its carbon emission this is one way of cutting unnecessary expenses in terms of taxation by the government. In addition, the production cost of electricity should be lowered without cutting off the labor force (Koen, 2009). This will remarkably reduce the cost of production, and the company will sell its products at lower prices compared to its competitors. The company needs to attract more investments to extend its services to other region by offering best market prices and returns.

Merging with other companies in the industry will enable the company to have large capital market share and control the market earning the company more revenue. This will help it to meet both its short term and long-term expenses. In addition, the company will be in a position to meet the glowing energy demand and offering best pricing policies.