Perfect competition vs monopoly

[Life]

M&S (perfect competition) Vs Thames Water (monopoly) At one end is perfect competition where there are very many firms competing against each other. Every firm is so tiny in relation to the entire trade that has no power to manipulate price. It is a ‘ price taker’. At the other end is monopoly, where there is just a single firm in the industry, and for this reason no competition from inside the industry. Perfect competition e. g. Marks & Spencer, they have many competitors such as, Asda, Next and Tesco. They productively have over 600 UK stores, in addition expanding international business.

They employ over 75, 000 people in the UK and abroad. On the whole, their clothing and homeware sales account for 49% of their business. The other 51% of business is infood, where they put on the market everything from fresh produce and groceries, to partly-prepared meals and ready meals. Nevertheless on the other end, there is a Monopoly e. g. Thames Water, which is UK’s largest water and wastewater, services company. They play a very important role in providing everyday 2, 600 million litres of tap water to 8. 5 million customers across London and the Thames Valley.

They also get rid of and take care of 2, 800 million litres of sewage for an area covering 13. 5 million customers. The main strong point of National Grid is that there are no competitors. Having many firms rivalling not in favour of each other e. g. Marks & Spencer, it is then good for consumers. The hypothesis of perfect competition demonstrates an intense form of free enterprise. Within it, firms are utterly issue to market forces. They have no power at all to influence the price of the product. The price they face is dogged by the interaction of demand and supply in the entire market.

M&S are ‘ price takers’. There are numerous firms in the industry that each one manufactures an unimportantly small quantity of entire industry supply, and consequently has no power at all to change the price of the invention. For M&S and their other opponents, there is full liberty of admission into the industry for fresh firms. Active firms are not capable to discontinue new firms setting up in business. New firms will find it relatively straightforward to enter markets if they feel there is irregular profits to be made.

The entries of new firms make available competition and guarantee prices are kept low in the long-run. Manufacturers and customers have ideal awareness of the market. That is, manufacturers are completely alert of prices, costs and market chances. Customers are entirely aware of price, excellence and accessibility of the product. Thames Water has sustained their monopoly situation, by including obstacles (barriers) to the entry of new firms. Even if a market could support more than one firm, a new participant is unlikely to be able to start up on a very huge scale.

Accordingly the Thames Water who is already experiencing economies of scale can charge a price under the cost of the new participant and force it out of business. If, nevertheless, the new participant is a firm previously established in another industry, it may be capable to endure this competition. Since there is, by classification, only one firm in the industry, the firm’s demand curve is also the industry demand curve. In contrast with other market organisations, demand under Thames Water tends to be less flexible.

Thames Water can lift its price and consumers have no substitute firm to turn inside the industry. They moreover pay the superior price, or go without the product altogether. Dissimilar to M&S, Thames Water is consequently a ' price maker'. It can make a decision to what price to alter. On the other hand, it is still forced by its demand curve. An increase in price will decrease the amount demanded. As with firms in other market structures, Thames Water will make the most of profit where MR (rate price) = MC (Marginal Cost).

Given that there are barriers to the entry of new firms, Thames Water's supernormal profits will not be competed away in the lengthy run. The merely dissimilarity, therefore, among short-run and long-run equilibrium is that in the long-run the firm will manufacture where MR = long-run MC. Both M&S and Thames Water face different types of market surroundings. Thames Water will generate a quite diverse output and at a fairly diverse price from M&S type of industry. M&S complete continued existence in the long run makes use of the most well-organized and fficient known technique, and develops new techniques anywhere possible. For example, Plan A. Plan A is Marks & Spencer's five-year, 100-point 'eco' plan to tackle some of the biggest challenges facing their business and the world. It will see them working with their customers and suppliers to combatclimate change, reduce waste, safeguard natural resources, trade ethically and build a healthier nation. Altogether, they have cut down on food carrier bags by 80% - helping to reduce plastic waste. This helped raise half a million pounds for charity.

Even though, Thames Water, protected by barriers to entry, be able to still create big profits even if it is not using the most efficient system. It has lessmotivation, therefore, to be efficient. For this motive, costs may be privileged under Thames Water. On the other hand, Thames Water may be bright to achieve considerable economies of scale due to larger plant, centralised management and the prevention of pointless repetition. Thames Water eradicates the want for numerous sets of rival water mains under each street.

If this consequence in an MC curves significantly below that of the same industry under M&S, Thames Water can yet manufacture a higher output at a lower price. An additional reason why Thames Water may well function with lower costs is that it can make use of part of its supernormal profits for investigate and progress and investment. It possibly will not contain the same motivation to develop into efficient as M&S which is fighting for continued existence, but it may contain a much superior skill to become efficient than has the small firm with incomplete finances.

Even if Thames Water faces no competition in the supplies market, it may face a substitute form of competition in financial markets. Thames Water, with potentially low costs, which at present runs inefficiently, is likely to be subject to a takeover tender from an additional company. This competition for commercial manage, as it is the struggle for the control of companies during takeovers, may as a result, force Thames Water to be efficient in order to avoid being taken over. Overall, there are two tremendous forms of market structure: monopoly (Thames Water) and, its opposite, perfect competition (Marks & Spencer).

M&S is characterised by many buyers and sellers, many products that similar in nature and, as a result, many substitutes. Meaning there are few, if any, barriers to entry for new companies, and prices are determined by supply and demand. Consequently, M&S are subject to the price of a good, the consumers can just turn to the firm decide to increase its selling price of a good; the consumers can just turn to the nearest competitor for a better price, causing any firm that increases its prices to lose market share and profits.

Whereas the more constable the market, the more will Thames Water be forced to take action on like a firm under M&S. If, therefore, Thames Water operates in a perfectly contestable market, it might bring the finest time for the consumer. Not simply will it be capable to accomplish low costs through economies of scale, but also the possible competition will keep profits and as a result prices down. Bibliography McAleese, Dermot (2004).

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