Analysis: the study of perfect competition and monopoly

Life

In perfect competition, the market consists of a huge number of buyers and sellers and hence, a single buyer or seller, however large, can not influence the market price of a product by changing his own demand / supply of the product. All the firms produce and sell homogeneous products. The products are supposed to be identical in terms of quality, variety, color, design, packing, and other selling conditions whatsoever.

There are no barriers to entry or exit in the market. Firms have complete freedom to move in or move out of any industry without any obstacle. The factors of production can be moved in and out of the market easily and effortlessly. Goods, services and labor are perfectly mobile between firms and consumers. In a perfect competitive market, buyers and sellers are supposed to possess perfect knowledge about the prevailing market conditions. Firms do not have to incur any cost on transportation of goods from one part of the market to another. There are hardly any Govt. interventions in the business of the farms. Due to all these factors, in perfect competition, firms can only earn normal profits

From the above mentioned characteristics, it is beyond any doubt that no such market can exist in the real world. The assumption of large number of sellers and product homogeneity imply that all individual firms in perfect competition are price takers, the demand curve being infinitely elastic which means that firms can sell any amount of product at the prevailing price. Product homogeneity is totally an unrealistic concept. There are always certain barriers to entry and exit for the firms in any market. Factors of production can not be perfectly mobile between firms and transportation cost always exists in every market. ‘ Perfect knowledge’ never exists among all buyers and sellers and there is hardly any market where the government is devoid of any power to control it. Direct and indirect taxes are common in every part of the world.

Monopoly

Monopoly, being the exact opposite of the perfectly competitive market, consists of only one seller of a product. The products are not homogeneous in nature and hence, there is no close substitute for them. Moreover, barriers of entry are high and the firms can either fix the price or control the supply of a product. A monopolist applies pricediscrimination(different prices are charged for the same product from different customers); thereby earning super-normal profits.

Pure monopoly is also rare in today’s market structure. There are always some close substitutes for every product or service. Thus while the National Railways may be termed a monopoly, the Road Transport Corporation provides a close substitute for the services provided by the former. Even a few decades ago, in developing countries like India, the National Airlines and TV channel, Electricity Boards etc. But with theglobalization& liberalization act in 1992, a large number of private players from across the world entered the market and gained considerable market share. De Beers was considered as one of the most effective natural monopolist in the world holding slightly less than 90 percent of market share in the mid-1980s, but still it was not the single player in the diamond market.

Thus, although there may be certain markets which closely resemble some conditions of perfect and monopoly competitions, but considering the definition and characteristics of both these two types of markets, it can easily be concluded that the existence of such markets in the present age, is only a fictitious concept.

References

Economics for Managers, ICFAI Center for Management & Research (ICMR) Publications, chapter: 6 - 7