

Business organisation and policy cartels and monopolies



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Policy Cartels and Monopolies Instructions: Task: Policy Cartels and

Monopolies A policy cartel is a group of companies that come together with the aim of achieving particular trade goals. On the other hand, monopoly is the complete control of trade operations such as provision of particular commodities or services. (Sangla 2009, p. 190). Apparently, cartels and monopolistic enterprises are in complete hold of the contemporary business realm.

Policy cartels are classified according to the purposes for which they are formed. They are mostly classified as price determining, terms fixing, buying and output determining policy cartels. The price determining cartels aim at controlling market prices while the terms fixing cartels dictate the terms and conditions of sale. On the other hand, buying cartels aim at purchasing raw materials for its members while the output determining cartels determine the quantity of output for each member unit as the name suggests (Sangla 2009, p. 181).

Without government intervention, an isolated monopolistic firm would only exist in an ideal world. This is because most monopolistic firms make a lot of profits thus encouraging the formation of rival firms. In the long run, the new firms break the monopoly. Most governments in the 1920s embraced mergers and trade unions in key economical sectors such as chemical and metal industries (McTavish 2005, p. 52). However, most of the business organizations preferred cartels to the other forms of trade convergence. After the World War II, the business field developed thorough monopolies and restrictive practices, which had salient effects on business organizations (McTavish 2005, p. 52). Currently, it is only America in the whole world, which has not legalized cartel formation. One of the most popular cartels <https://assignbuster.com/business-organisation-and-policy-cartels-and-monopolies/>

today is the organization of petroleum-exporting countries (OPEC). OPEC was established mainly to control the amount of oil each member produced.

Member units that form cartels always enjoy a wide variety of benefits. Each member usually has a guarantee to earn fixed minimum profit which is not the case with other business institutions. In addition, all marketing and other secondary functions of the individual business organizations such as transportation, advertisement and marketing research are normally carried out by the cartels (Sangla 2009, p. 181).

In addition, the member firms also enjoy price control. Since, in working as a pool, the individual firms acquire monopolistic characteristics, they are in a position to charge the prices of their products at their own will.

Conversely, the cartels and monopolistic business activities have a number of social demerits too. These monopolistic approaches tend to exploit the consumers. In most cases, the main target of cartels is to prevent the individual member companies from incurring losses without considering the consumers' interests. Just like monopolists, cartels may choose to reduce their supply and at the same time keep commodity prices held very high (Sangla 2009, p. 182).

Moreover, the cartels are difficult to maintain. Some firms are always tempted to produce more commodities than agreed upon by the cartel in order to realize exorbitant profits. This act of unfaithfulness may lead to failure of the syndicate as it may prove difficult to achieve its preset objectives.

Cartel and monopolistic practices, therefore, play a very essential role in the business field. They have both positive and negative effects and, therefore, one should not prematurely dispute the idea of encouraging the practice.
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Price dictation, for instance, can only be harmful to the consumers, if the commodity in question is extremely rare, a situation which is almost impossible in real life situation (McTavish 2005, p. 68).

Bibliography

McTavish, D, 2005, Business and Public Management in the UK, Ashgate Publishing, Farnham.

Sangla, R, 2009, Business Organization, FK Publications, Delhi.