Course Code: BUS 222

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Market & Its structure

The market structure can be defined as, the number of firms producing the identical goods and services in the market and whose structure is determined on the basis of the competition prevailing in that market.

Types of Market Structure:

Perfect Competition

Definition: The **Perfect Competition** is a market structure where a large number of buyers and sellers are present, and all are engaged in the buying and selling of the homogeneous products at a single price prevailing in the market.

Features of Perfect Competition

1) Large number of buyers and sellers: In perfect competition, the buyers and sellers are large enough, that no individual can influence the price and the output of the industry. An individual customer cannot influence the price of the product, as he is too small in relation to the whole market. Similarly, a single seller cannot influence the levels of output, which is too small in relation to the gamut of sellers operating in the market.

2) Homogeneous Product: Each competing firm offers the homogeneous product, such that no individual has a preference for a particular seller over the others. Salt, wheat, coal, etc. are some of the homogeneous products for which customers are indifferent and buy these from the one who charges a less price. Thus, an increase in the price would let the customer go to some other supplier.

3)Free Entry and Exit: Under the perfect competition, the firms are free to enter or exit the industry. This implies, If a firm suffers from a huge loss due to the intense competition in the industry, then it is free to leave that industry and begin its business operations in any of the industry, it wants. Thus, there is no restriction on the mobility of sellers.

4) Perfect knowledge of prices and technology: This implies, that both the buyers and sellers have complete knowledge of the market conditions such as the prices of products and the latest technology being used to produce it. Hence, they can buy or sell the products anywhere and anytime they want.

5) No transportation cost: There is an absence of transportation cost, i.e. incurred in carrying the goods from one market to another. This is an essential condition of the perfect competition since the homogeneous product should have the same price across the market and if the transportation cost is added to it, then the prices may differ.

6) Absence of Government and Artificial Restrictions: Under the perfect competition, both the buyers and sellers are free to buy and sell the goods and services. This means any customer can buy from any seller, and any seller can sell to any buyer.Thus, no restriction is imposed on either party.

Monopolistic Competition

Definition: Under, the **Monopolistic Competition**, there are a large number of firms that produce differentiated products which are close substitutes for each other. In other words, large sellers selling the products that are similar, but not identical and compete with each other on other factors besides price.

Features of Monopolistic Competition

1) Product Differentiation: This is one of the major features of the firms operating under the monopolistic competition, that produces the product which is not identical but is slightly different from each other. The products being slightly different from each other remain close substitutes of each other and hence cannot be priced very differently from each other.

2) Large number of firms: A large number of firms operate under the monopolistic competition, and there is a stiff competition between the existing firms. Unlike the perfect competition, the firms produce the differentiated products which are substitutes for each other, thus make the competition among the firms a real and a tough one.

3) Free Entry and Exit: With an intense competition among the firms, the entity incurring the loss can move out of the industry at any time it wants. Similarly, the new firms can enter into the industry freely, provided it comes up with the unique feature and different variety of products to outstand in the market and meet with the competition already existing in the industry.

4) Some control over price: Since, the products are close substitutes for each other, if a firm lowers the price of its product, then the customers of other products will switch over to it. Conversely, with the increase in the price of the product, it will lose its customers to others. Thus, under the monopolistic competition, an individual firm is not a price taker but has some influence over the price of its product.

5) Heavy expenditure on Advertisement and other Selling Costs: Under the monopolistic competition, the firms incur a huge cost on advertisements and other selling costs to promote the sale of their products. Since the products are different and are close substitutes for each other; the firms need to undertake the promotional activities to capture a larger market share.

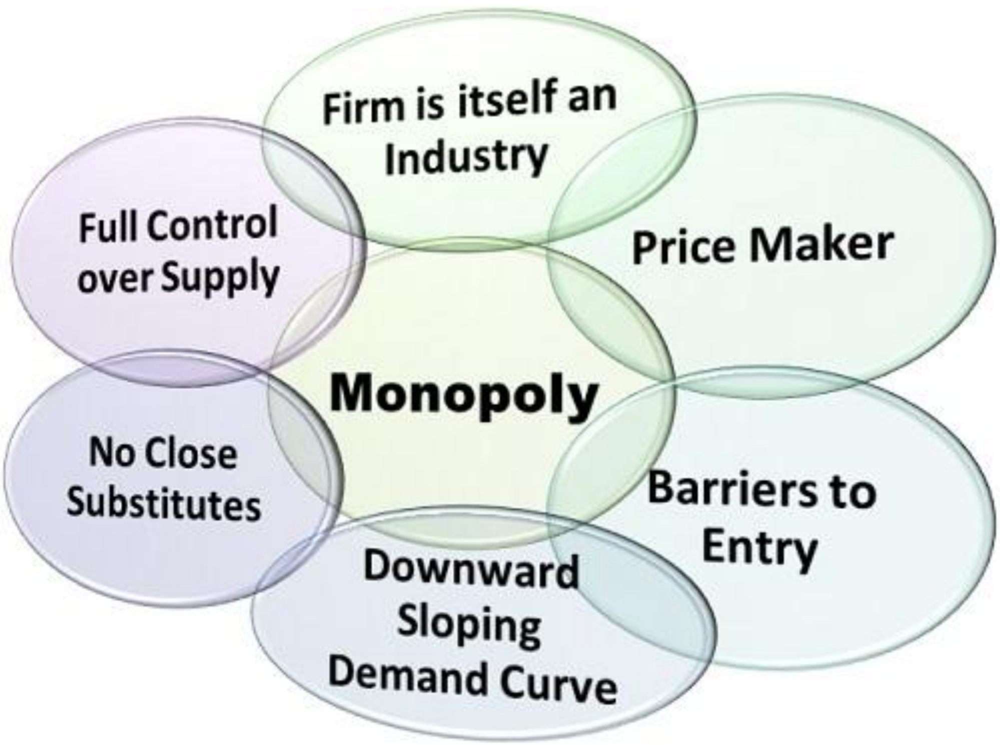
6) Product Variation: Under the monopolistic competition, there is a variation in the products offered by several firms. To meet the needs of the customers, each firm tries to adjust its product accordingly. The changes could be in the form of new design, better quality, new packages or container, better materials, etc. Thus, the amount of product a firm is selling in the market depends on the uniqueness of its product and the extent to which it differs from the other products.

The monopolistic competition is also called as **imperfect competition** because this market structure lies between the pure monopoly and the pure competition

Monopoly Market

Definition: The **Monopoly** is a market structure characterized by a single seller, selling the unique product with the restriction for a new firm to enter the market. Simply, monopoly is a form of market where there is a single seller selling a particular commodity for which there are no close substitutes.

Features of Monopoly Market



1. Under monopoly, the firm has full control over the supply of a product. The elasticity of demand is zero for the products.
2. There is a single seller or a producer of a particular product, and there is no difference between the firm and the industry. The firm is itself an industry.
3. The firms can influence the price of a product and hence, these are price makers, not the price takers.
4. There are barriers for the new entrants.
5. The demand curve under monopoly market is downward sloping, which means the firm can earn more profits only by increasing the sales which are possible by decreasing the price of a product.
6. There are no close substitutes for a monopolist's product.

Under a monopoly market, new firms cannot enter the market freely due to any of the reasons such as Government license and regulations, huge capital requirement, complex technology and economies of scale. These economic barriers restrict the entry of new firms.

Oligopoly Market

Definition: The **Oligopoly Market** characterized by few sellers, selling the homogeneous or differentiated products. In other words, the Oligopoly market structure lies between the pure monopoly and monopolistic competition, where few sellers dominate the market and have control over the price of the product.

Under the Oligopoly market, a firm either produces:

- **Homogeneous product:** The firms producing the homogeneous products are called as Pure or Perfect Oligopoly. It is found in the producers of industrial products such as aluminum, copper, steel, zinc, iron, etc.
- **Heterogeneous Product:** The firms producing the heterogeneous products are called as Imperfect or Differentiated Oligopoly. Such type of Oligopoly is found in the producers of consumer goods such as automobiles, soaps, detergents, television, refrigerators, etc.

Features of Oligopoly Market

1) Few Sellers: Under the Oligopoly market, the sellers are few, and the customers are many. Few firms dominating the market enjoys a considerable control over the price of the product.

2) Interdependence: it is one of the most important features of an Oligopoly market, wherein, the seller has to be cautious with respect to any action taken by the competing firms. Since there are few sellers in the market, if any firm makes the change in the price or promotional scheme, all other firms in the industry have to comply with it, to remain in the competition.

Thus, every firm remains alert to the actions of others and plan their counterattack beforehand, to escape the turmoil. Hence, there is a complete interdependence among the sellers with respect to their price-output policies.

3) Advertising: Under Oligopoly market, every firm advertises their products on a frequent basis, with the intention to reach more and more customers and increase their customer base. This is due to the advertising that makes the competition intense.

If any firm does a lot of advertisement while the other remained silent, then he will observe that his customers are going to that firm who is continuously promoting its product. Thus, in order to be in the race, each firm spends lots of money on advertisement activities.

4) Competition: It is genuine that with a few players in the market, there will be an intense competition among the sellers. Any move taken by the firm will have a considerable impact on its rivals. Thus, every seller keeps an eye over its rival and be ready with the counterattack.

5) Entry and Exit Barriers: The firms can easily exit the industry whenever it wants, but has to face certain barriers to entering into it. These barriers could be Government license, Patent, large firm’s economies of scale, high capital requirement, complex technology, etc. Also, sometimes the government regulations favor the existing large firms, thereby acting as a barrier for the new entrants.

6) Lack of Uniformity: There is a lack of uniformity among the firms in terms of their size, some are big, and some are small.

Since there are less number of firms, any action taken by one firm has a considerable effect on the other. Thus, every firm must keep a close eye on its counterpart and plan the promotional activities accordingly.