Market Structure

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Key terms

Laissez-faire - philosophy that the government should not interfere with trade and commerce.

Market Structure- classification according to the number and size of firms, the type of competition, and type of product.

Perfect competition- market structure characterized by a large number of well-informed independent buyers and sellers who exchange the same product.

continued

Imperfect competition- market structures where all conditions of pure competition are not met.

Monopolistic competition- market structure that has all the conditions of the perfect competition except for identical products.

Non-Price Competition-the use of advertising, giveaways or other promotional campaigns to convince buyers that the product is somehow better than another brand.

Continued

Oligopoly-Market structure in which a few very large sellers dominate the industry.

Collusion-A formal agreement to set price or to otherwise behave in a cooperative manner.

Price-Fixing-Agreeing to charge the same or similar prices for a product.

Monopoly-market structure with only one seller of a particular product.

Natural Monopoly-A market situation where the costs of production are minimized by having a single firm produce of the product.

Continued.

Economies of Scale-A situation in which the average cost of production falls as the firm gets larger.

Geographic monopoly- A monopoly based on the absence of other sellers in a certain geographic area.

Technological Monopoly- A monopoly that is based on ownership or control of a manufacturing method, process, or other scientific advance.

Government monopoly-a monopoly the government owns and operates.

Perfect Competition

Perfect Competition *is characterized by a number of well-informed independent buyers and sellers who exchange identical products.*

There are

5 Major conditions characterizing perfectly competitive markets.

Necessary Conditions

-There are large number of buyers and sellers

No one is powerful or large enough to affect the price

-Buyers and sellers deal in identical products

Just because something may look different, half the time IT IS the same product, no matter what label is on the merchandise.

-Each buyer and seller acts independently. Ensures that sellers compete against one another for the consumers dollar, and the consumer always wants the best price.

Monopolistic Competition

- The market structure that has all the conditions of perfect competition except for identical products.
- Most items produced today form the many brands we have of everything, may be the same, but different at the same time. Most items might be appealing to a celebrity and it makes a consumer want that product more because of another person, etc.
- Competitors usually advertise or promote heavily to make their products seem different from everyone else's.
- If a merchandise isn't as appealing to everyone, they can't charge as much.

Oligopoly

The exact number of firms in the industry is less important than the ability of any single firm to cause a change in output, sales, and prices in the industry as a whole.

Firms might divide up so that each product is guaranteed to sell a certain amount. [Interdependent Behavior]

Oligopolistic's even try to lower the prices, which can lead to a price war.

But not always is the price lower.

Monopoly

- Mono=One, therefore this market structure is only a “one seller” of a particular product.
- There are plenty of monopolies where a single group is responsible for that particular product, production, or movement.