

Unit 3

Chapter 7

- Market Structures



Chapter 7, Section 1

- **Competition
and Market
Structures**

Laissez-faire

- Adam Smith's philosophy from his book *The Wealth of Nations*. (1776)





Continued

- Government should not interfere with commerce or trade.
- “Laissez-faire” – “allow them to do”



Continued

- Under Laissez-Faire, the role of Government is confined to:
 - protecting private property
 - enforcing contracts
 - settling disputes
 - protecting businesses from increased foreign competition.

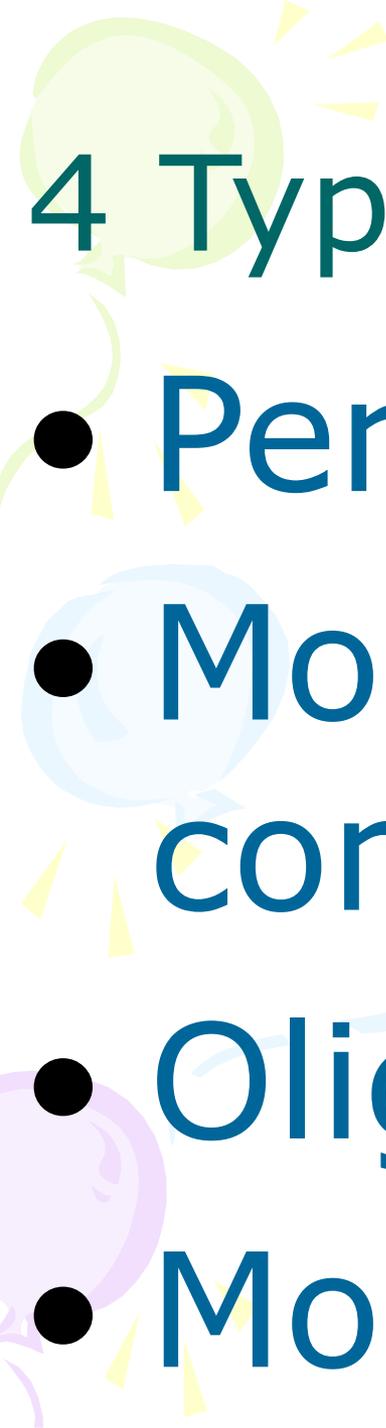


Laissez-faire

- That was then... This is now.
- Now we have much less competition due to few sellers dominating the market.

Market Structure

- The nature and degree of competition among firms operating in the same industry.



4 Types of Market Structure

- Perfect competition
- Monopolistic competition
- Oligopoly
- Monopoly

Perfect Competition

- Large number of independent buyers and sellers who exchange identical products.



5 Conditions

- Large number of buyers and sellers
- This way there can't be one dominant buyer or seller controlling the market.



Continued

- Must deal in identical products.
- Creates no need for brand names and no need to advertise.



Continued

- Each buyer and seller acts independently.
- Only competing against dollars not products.



Continued

- Buyers and sellers are reasonably well-informed about products and prices.

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Continued

- Buyers and sellers are free to enter into, conduct, or get out of business.

Monopolistic Competition

- The market structure that has all conditions or perfect competition except for identical products.

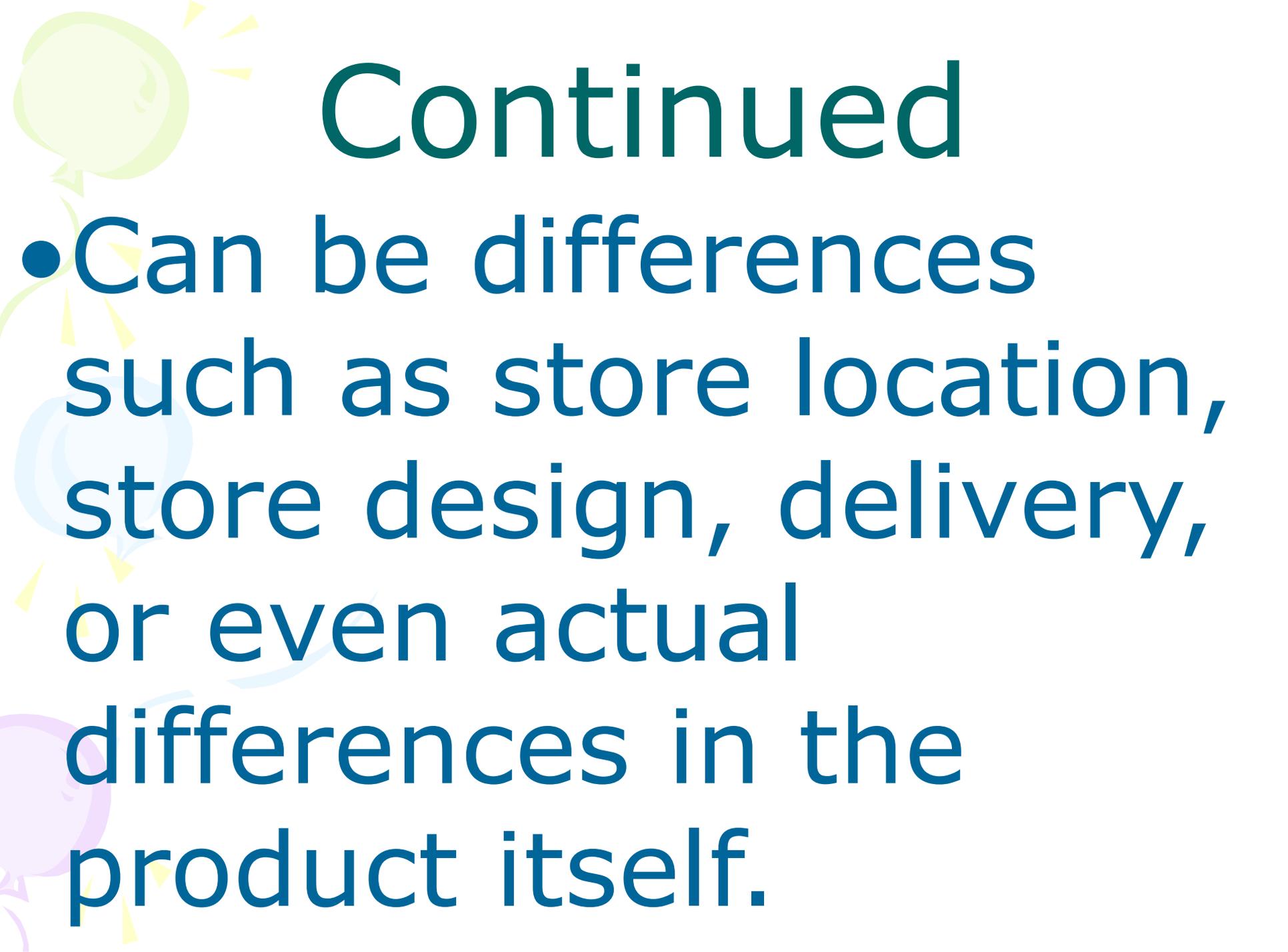


Continued

- Tries to attract more customers and monopolize a small portion of the market.

Product Differentiation

- Real or imagined differences between competing products in the same industry.
- Used by monopolistic competition.



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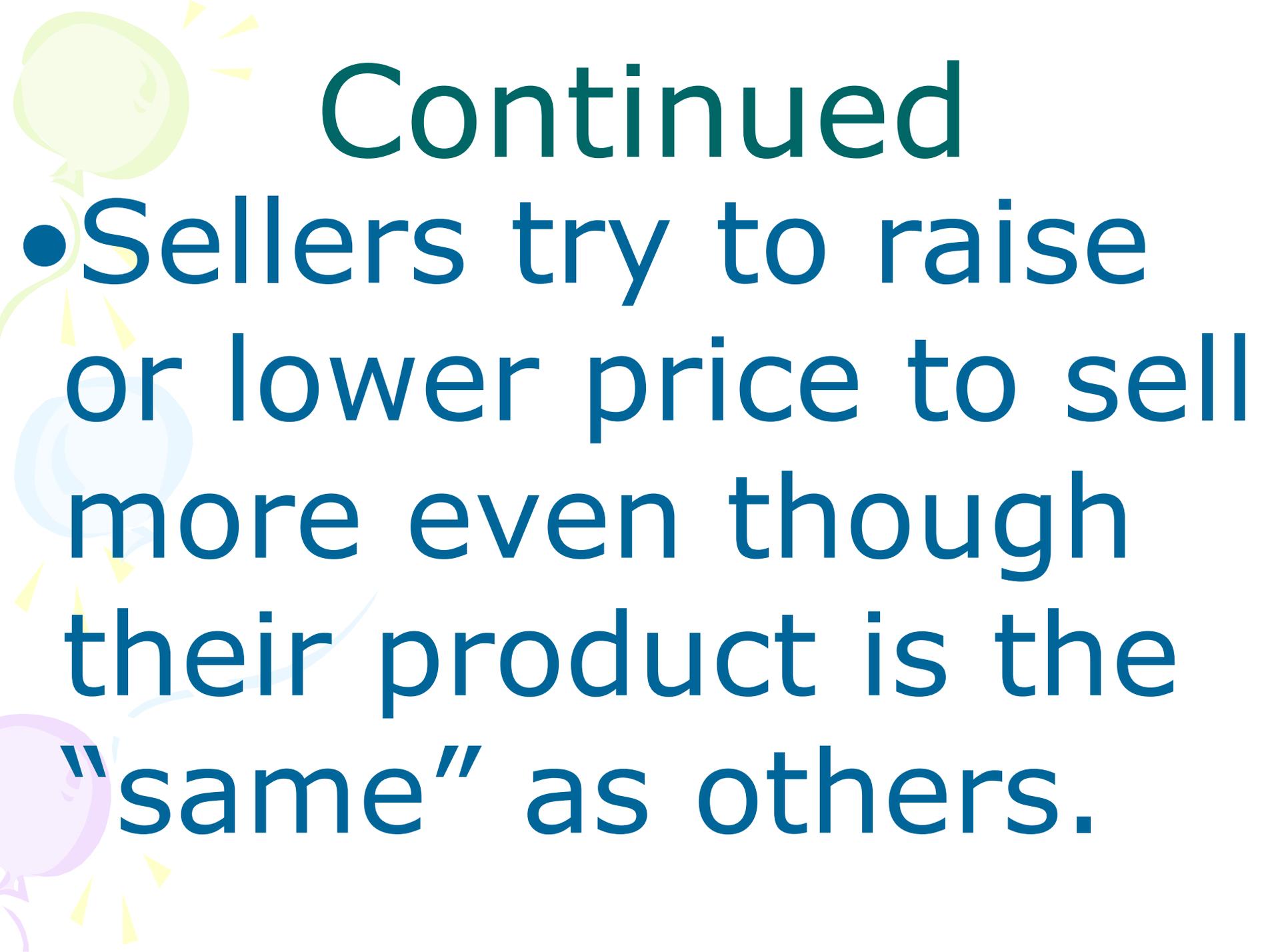
- Can be differences such as store location, store design, delivery, or even actual differences in the product itself.

Non-price Competition

- The use of advertising, giveaways, or other promotional campaigns to convince buyers their product is better.

Reason for M.C.

- It's monopolistic because products sell within a narrow range of other similar products.



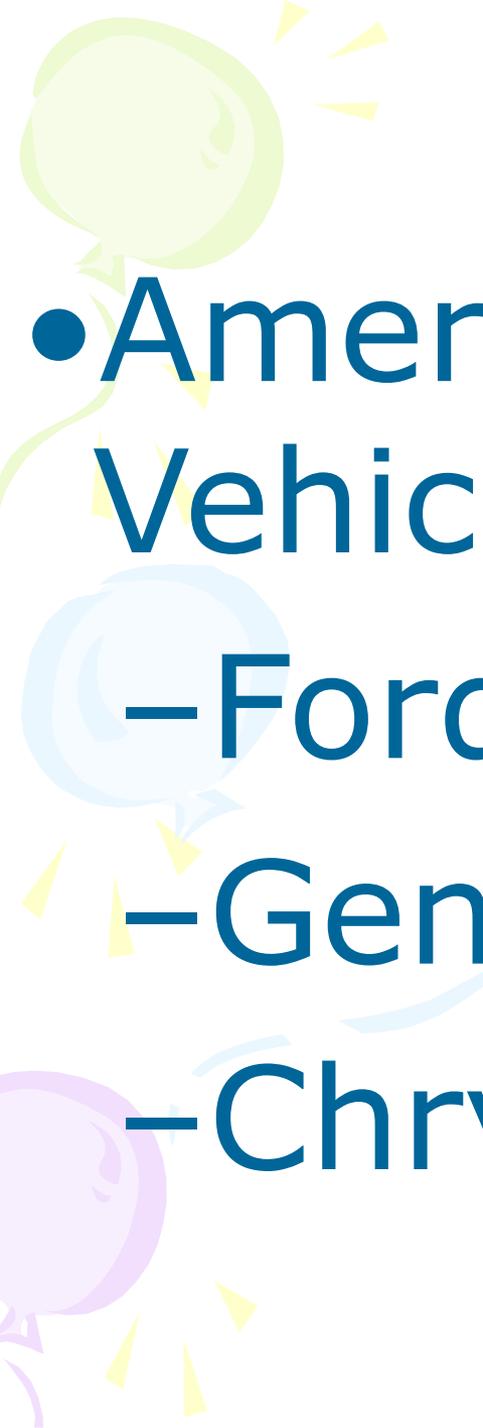
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- Sellers try to raise or lower price to sell more even though their product is the “same” as others.



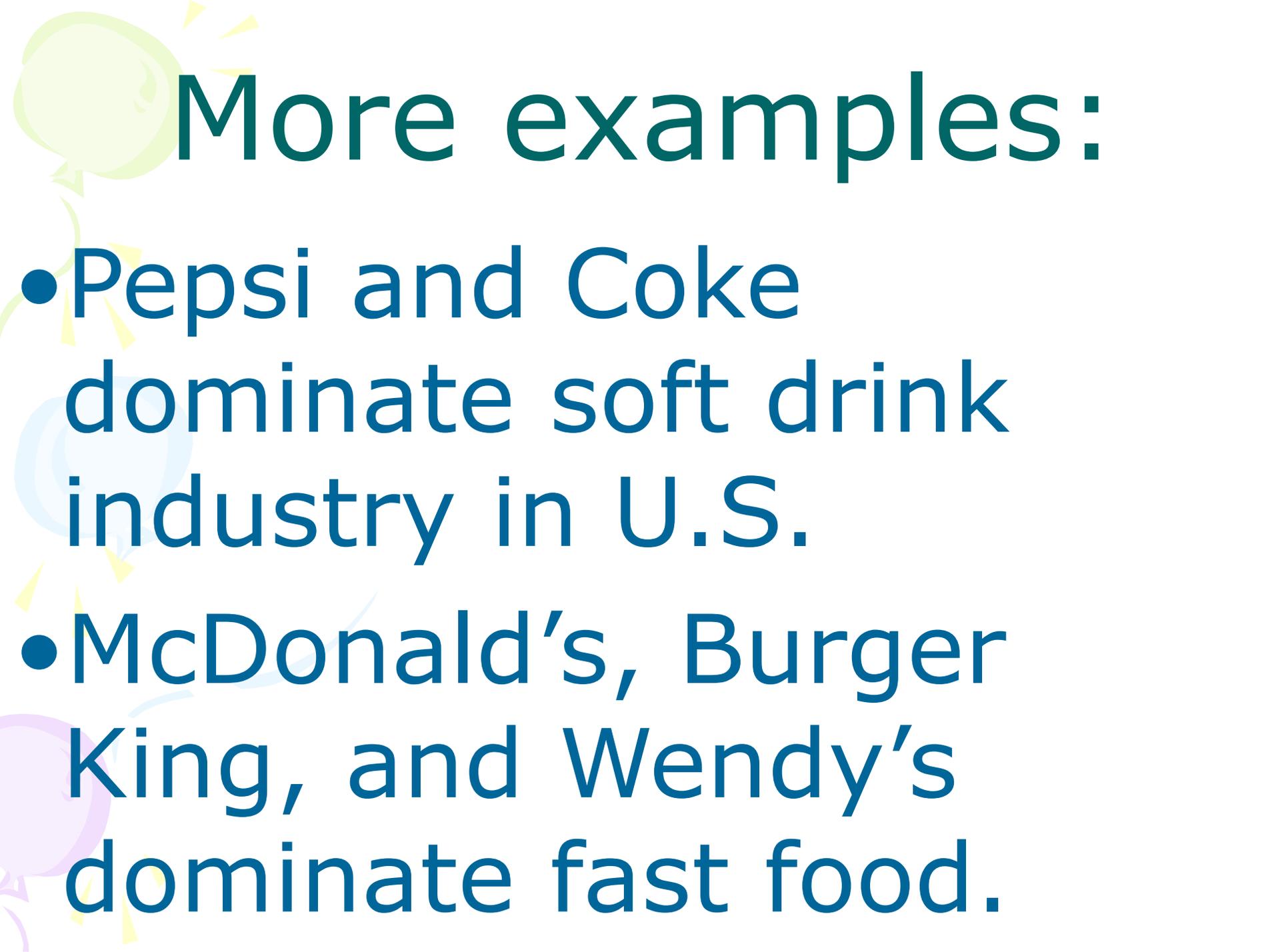
Oligopoly

- A few very large sellers dominate the industry.



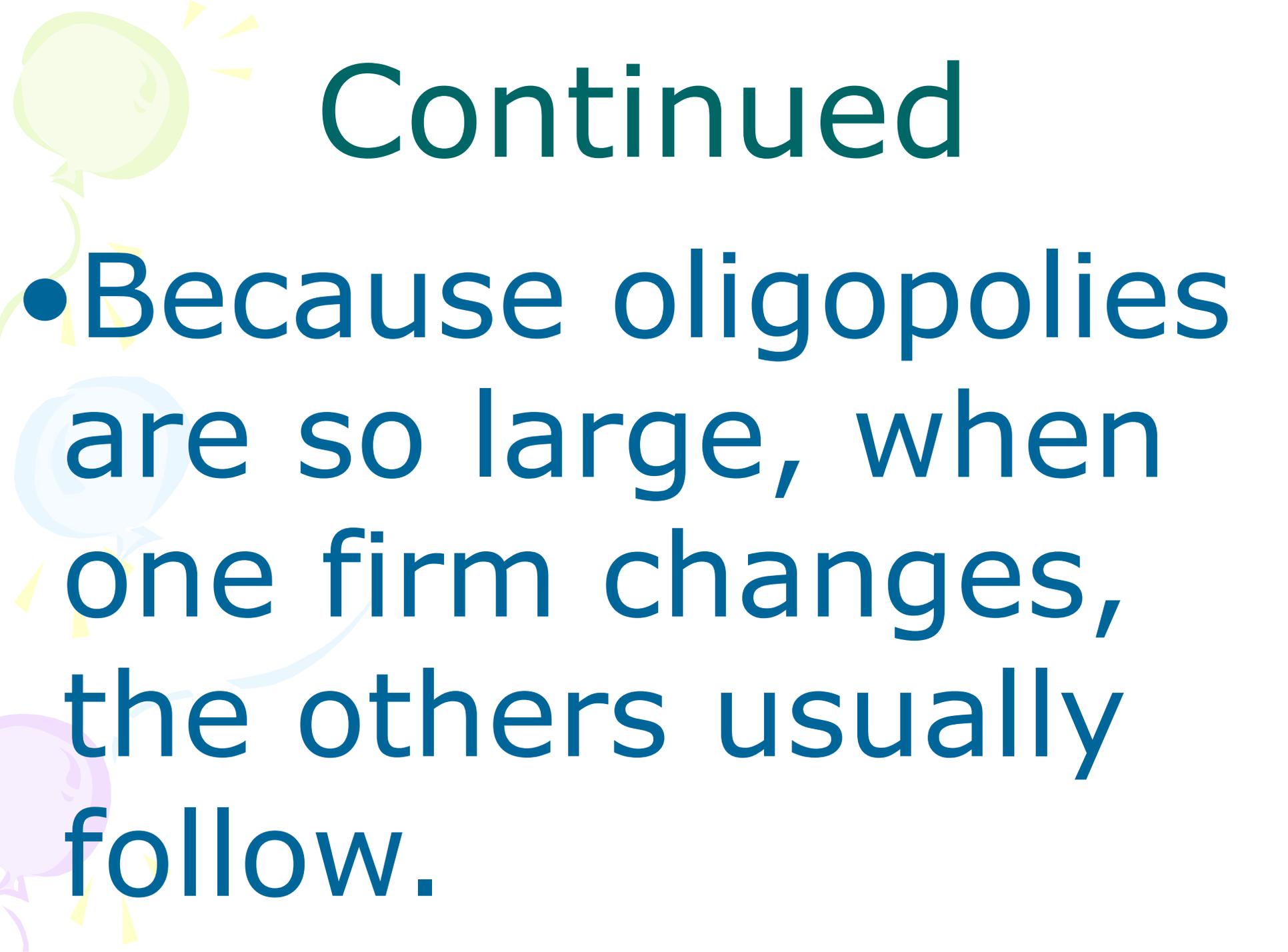
Example:

- American Produced Vehicles
 - Ford
 - General Motors
 - Chrysler



More examples:

- Pepsi and Coke dominate soft drink industry in U.S.
- McDonald's, Burger King, and Wendy's dominate fast food.



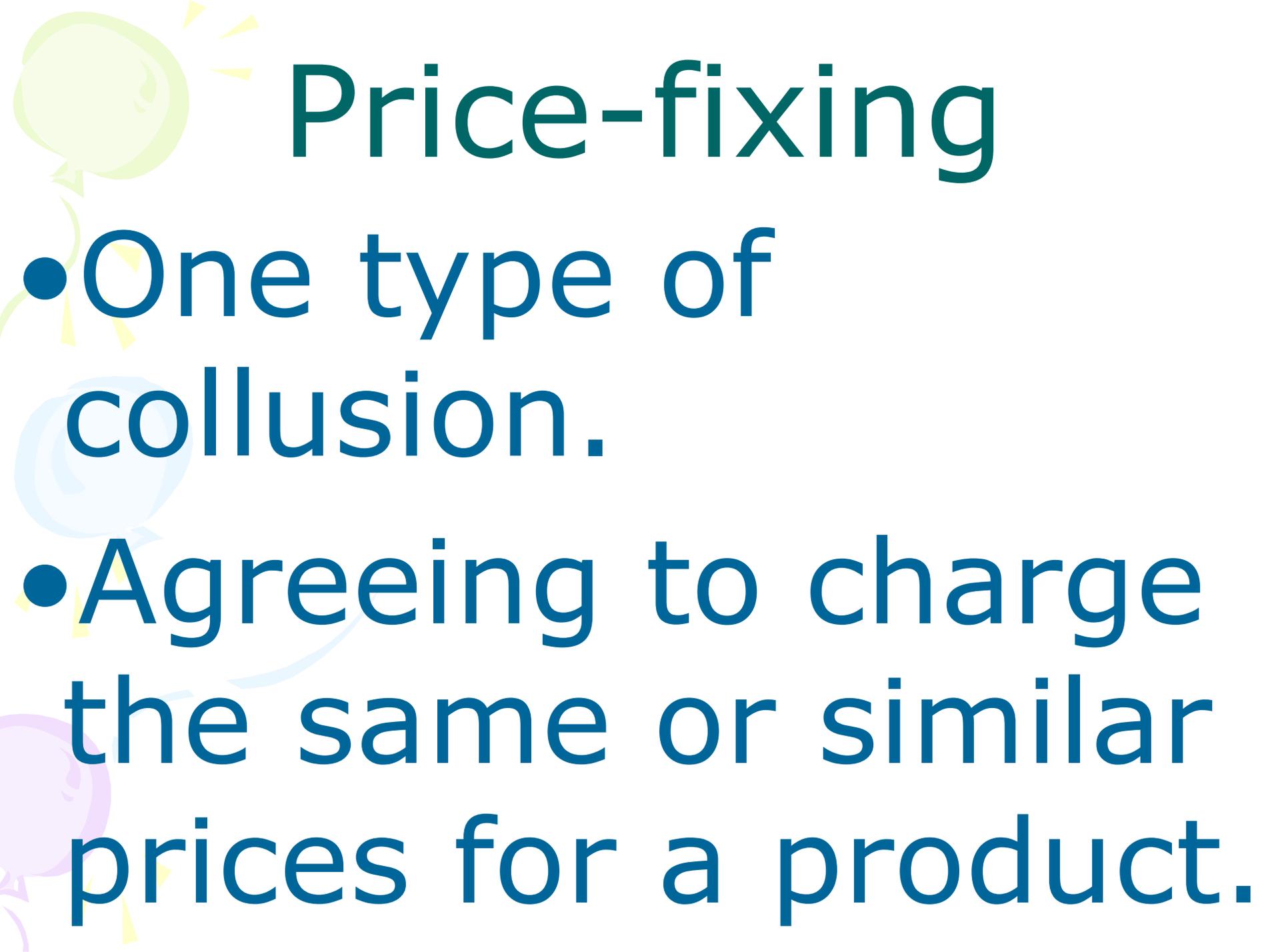
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- Because oligopolies are so large, when one firm changes, the others usually follow.



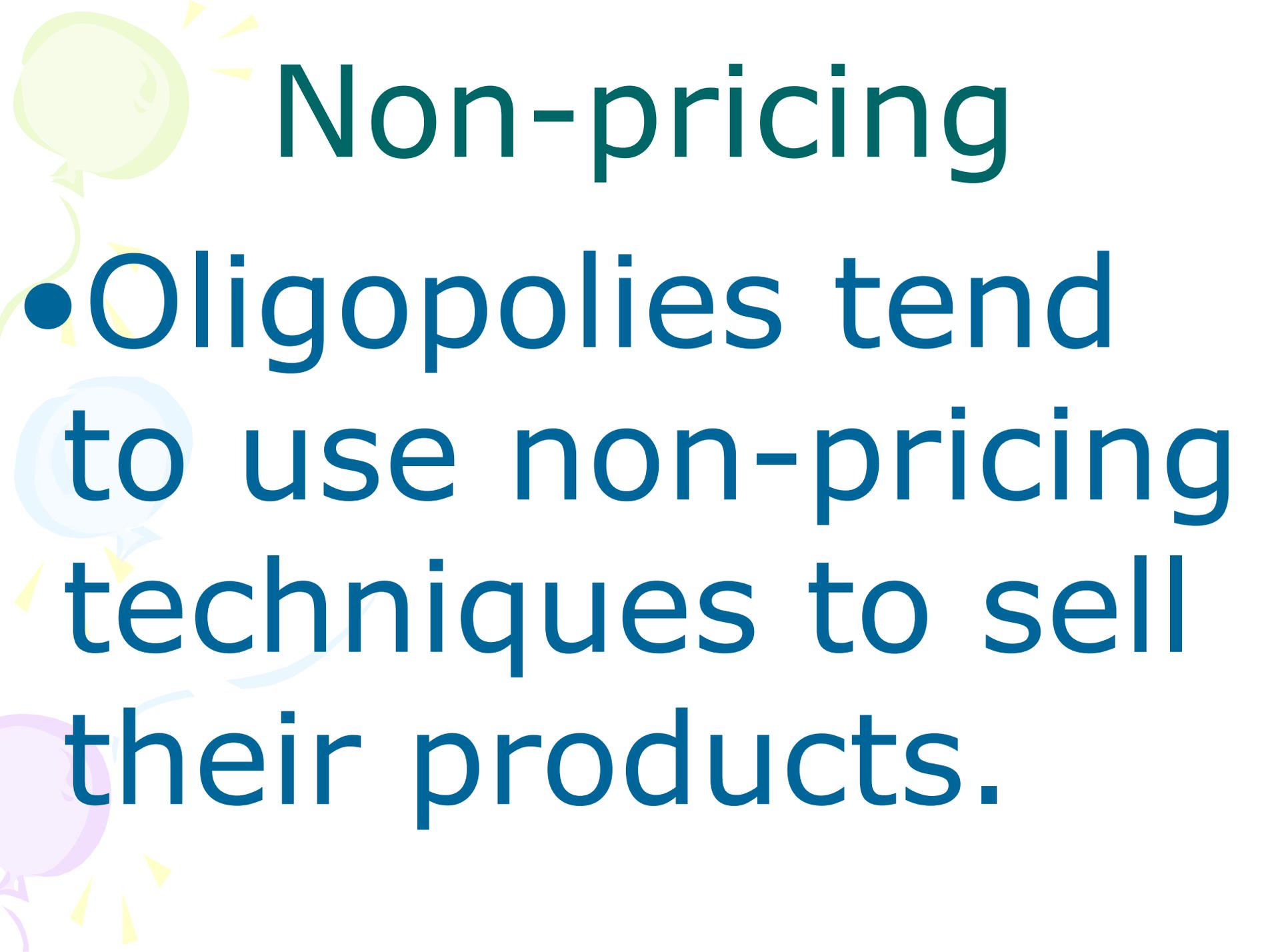
Collusion

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



Price-fixing

- One type of collusion.
- Agreeing to charge the same or similar prices for a product.



Non-pricing

- Oligopolies tend to use non-pricing techniques to sell their products.

Profit Maximization

- Products tend to sell for higher prices in oligopolies due to the competition between firms.



Monopoly

- Market structure with only one seller of a particular product.



Illegal

- Monopolies are **illegal** but we do have some industries that come close.
 - Local telephone company
 - Cable TV



Legal Types

- Natural Monopoly
- Geographic Monopoly
- Technological Monopoly
- Government Monopoly

Natural Monopoly

- Market situation where the costs of production are minimized by having a single firm produce the product.



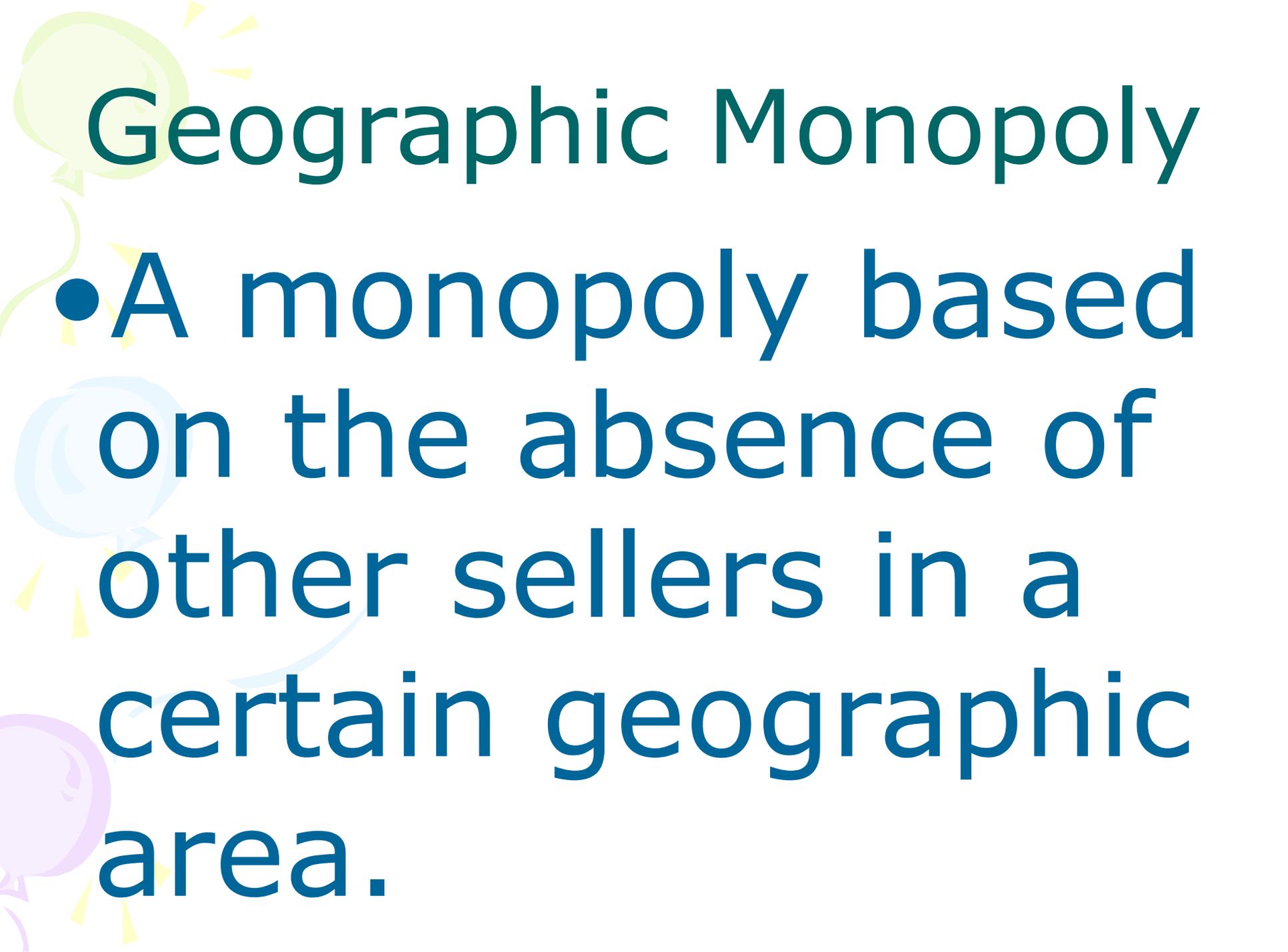
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- Can provide services cheaper as a monopoly than if they were not a monopoly.



Example:

- Public Utility Companies
- Telephone Companies



Geographic Monopoly

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

Technological Monopoly

- Monopoly based on ownership or control of a manufacturing method, process, or other scientific advance.

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How?

- Patents and Copyrights

Government Monopoly

- A monopoly that the government owns and operates.



Example:

- Water usage
 - Sale of alcoholic beverages
 - Control of weapons
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