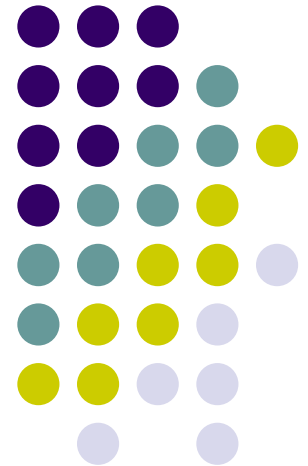
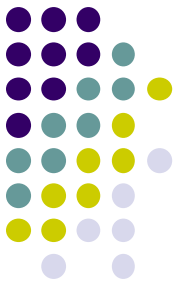


# Market Structures

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# Market Structures



MOST COMPETITIVE

LEAST COMPETITIVE

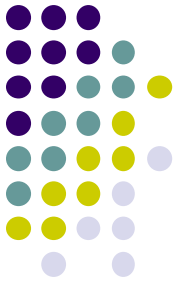
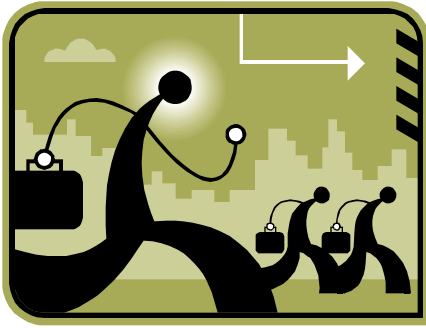
Pure  
Competition

Monopolistic  
Competition

Oligopoly

Monopoly





# Competitive Markets

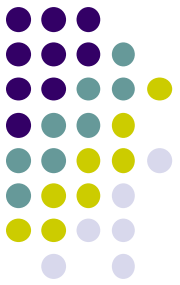


# 2 Major Types of Competitive Markets



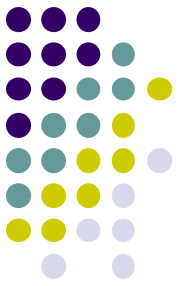
- Pure Competition
- Monopolistic Competition

# PURE COMPETITION



- No single buyer or seller controls supply, demand, or prices
- There are 4 conditions for PC
  - Many Buyers and Sellers
  - Identical Products
  - Informed Buyers
  - Easy Market Entry and Exit

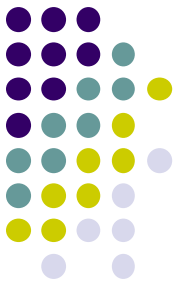
# 1. Many Buyers/Sellers



- Each company or producer accounts for a small portion of goods
- Everyone acts **INDEPENDENTLY**, little or no teamwork among competitors



## 2. Identical Products

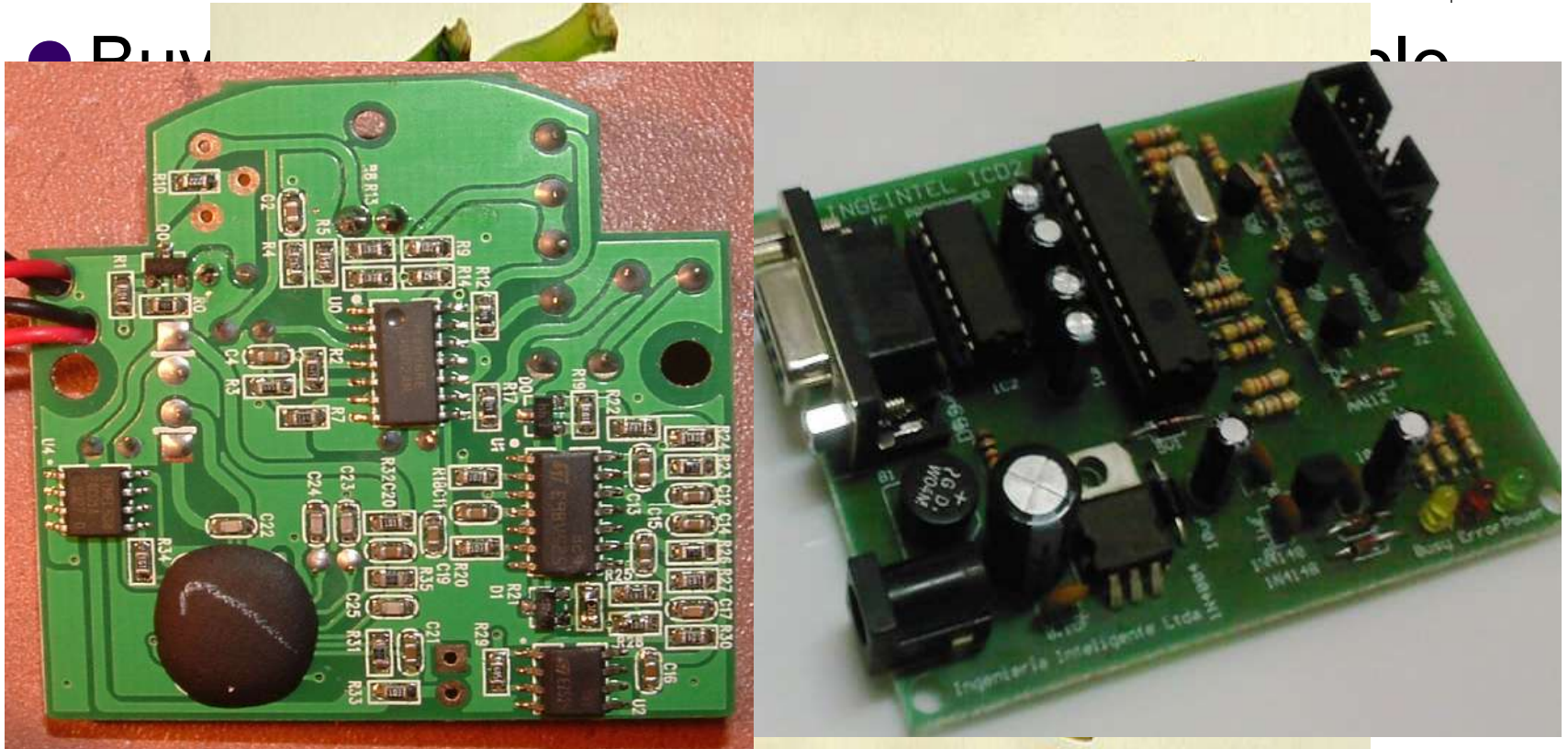
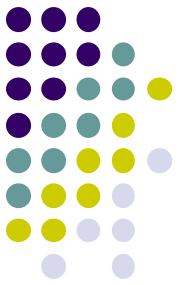


- Buyers choose goods almost SOLELY based on price, not quality
- Consumers are highly informed about product



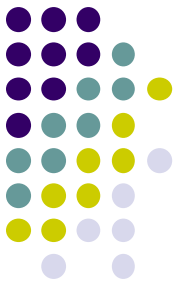


# 3. Informed Buyers





## 4. Easy Market Entry



- Extremely easy to enter the market and make a profit
  - Low start-up costs, few regulations
- Easy to switch between goods if you're already in the market

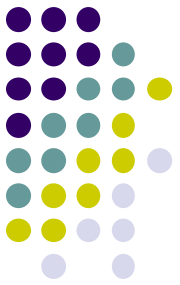


# Real World PC?



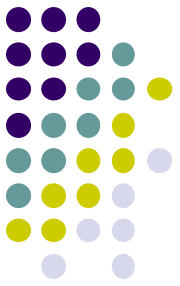
- Pure Competition is a *model*
- AGRICULTURE is closest to pure competition
  - Many farmers, food is very similar, buyers are informed
- Commodities also are close
  - Gold, silver, dairy, etc

# MONOPOLISTIC COMPETITION



- Similar to pure competition in some areas
  - Many producers
  - Fairly easy to enter market
- Primary difference between pure competition is sellers try to **DIFFERENTIATE** their products through advertising

# Monopolistic Competition (cont'd)



- Competition based on things other than price
  - Quality, size, perks, color...
  - **Advertising differences is key**



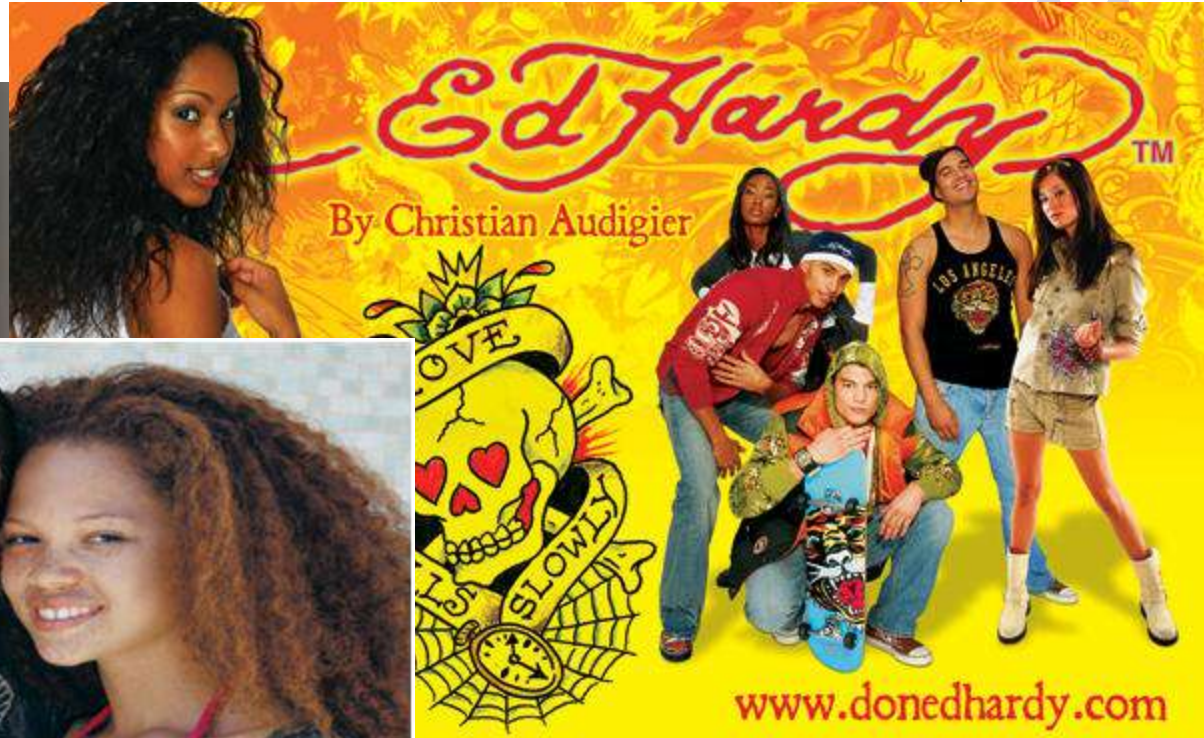
other the

# Homemade Lip Gloss





# Differences other than Price



A well dressed  
EACH OXFORD SUIT IS INDIVIDUALLY  
HAND SEWN WITH 2,950 STITCHES



36 E. 57th Street New York, NY 10022 T. 212-593-0204



# What are these companies selling?




Now you can  
e-mail and  
make calls  
wherever you go.



Introducing the BlackBerry™ handheld with a browser powered by iMode. Now you can surf and receive messages, e-mail and make calls. And, wherever you go, you'll be connected. See the only iMode-enabled BlackBerry wireless network. Get the answer at [blackberry.com/iMode](http://blackberry.com/iMode).

**T-Mobile**  
Get more from life.

You knew you'd  
rule the world  
someday.



**BLACKBERRY**

more bars  
in more places™



Cingular brings you the largest digital voice and data coverage in America on the network with the fewest dropped calls. It's called the ALLOVER® network. And because we'll continue to give cowboy boots more signal bars, you'll have coverage no matter how far you are from the ranch. To sign up, visit [cingular.com](http://cingular.com).

**cingular**  
raising the bar™

**prca**  
PRIMECIS

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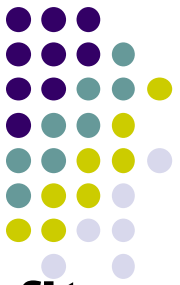
CALL 1-866-CINGULAR • CLICK [WWW.CINGULAR.COM](http://WWW.CINGULAR.COM) • COME IN TO A STORE

There's only one reason to choose a wireless company.

# IT'S THE NETWORK

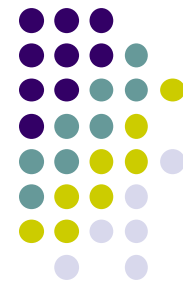


# Problem with Profits

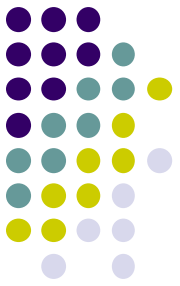


- **MC and PC face problem of non-sustainable profits**
  - 2 major problems
    - **1. No real control over price**
      - If price goes too high, consumers purchase from someone else
      - If profits are extremely large, other firms enter the industry because it's easy to get in
    - **2. In MC, advertising constantly changes the playing field**
      - Consumers change back and forth from one brand to another based on their preferences
      - SHORT RUN profits are possible with differentiation

# Journal 21

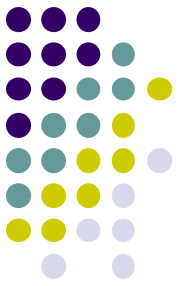


- Identify 3 different goods that are monopolistically competitive (shoes, hamburgers, etc)
  - For each good, identify 3 different **brands**
  - Explain what each brand has that the other two don't have



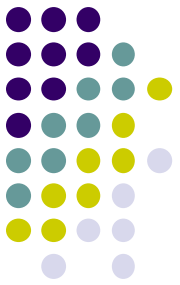
# Imperfect Competition

# Imperfectly Competitive Markets



- Unlike competitive markets, firms in imperfectly competitive markets may be able to set prices or production
- 2 types: **Oligopoly** and **Monopoly**





# 3 Conditions for Oligopoly

## 1. Few LARGE sellers

- top 3-4 companies/sellers handle 75% of demand

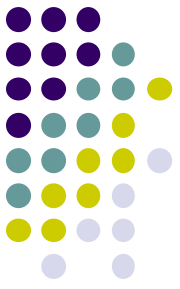
## 2. Identical or similar products

- producers less likely to differentiate

## 3. Difficult market entry

- Large firms have high start-up costs

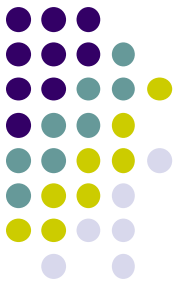




# Oligopolies at Work

- Typically try to use non-price competition
  - T.V. Stations, Cars, Movie studios





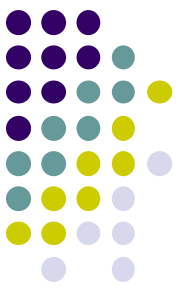
# Oligopolies At Work

- INTERdependent pricing
  - Firms set prices based on other firms
  - Price leaders: largest seller sets a price and others follow



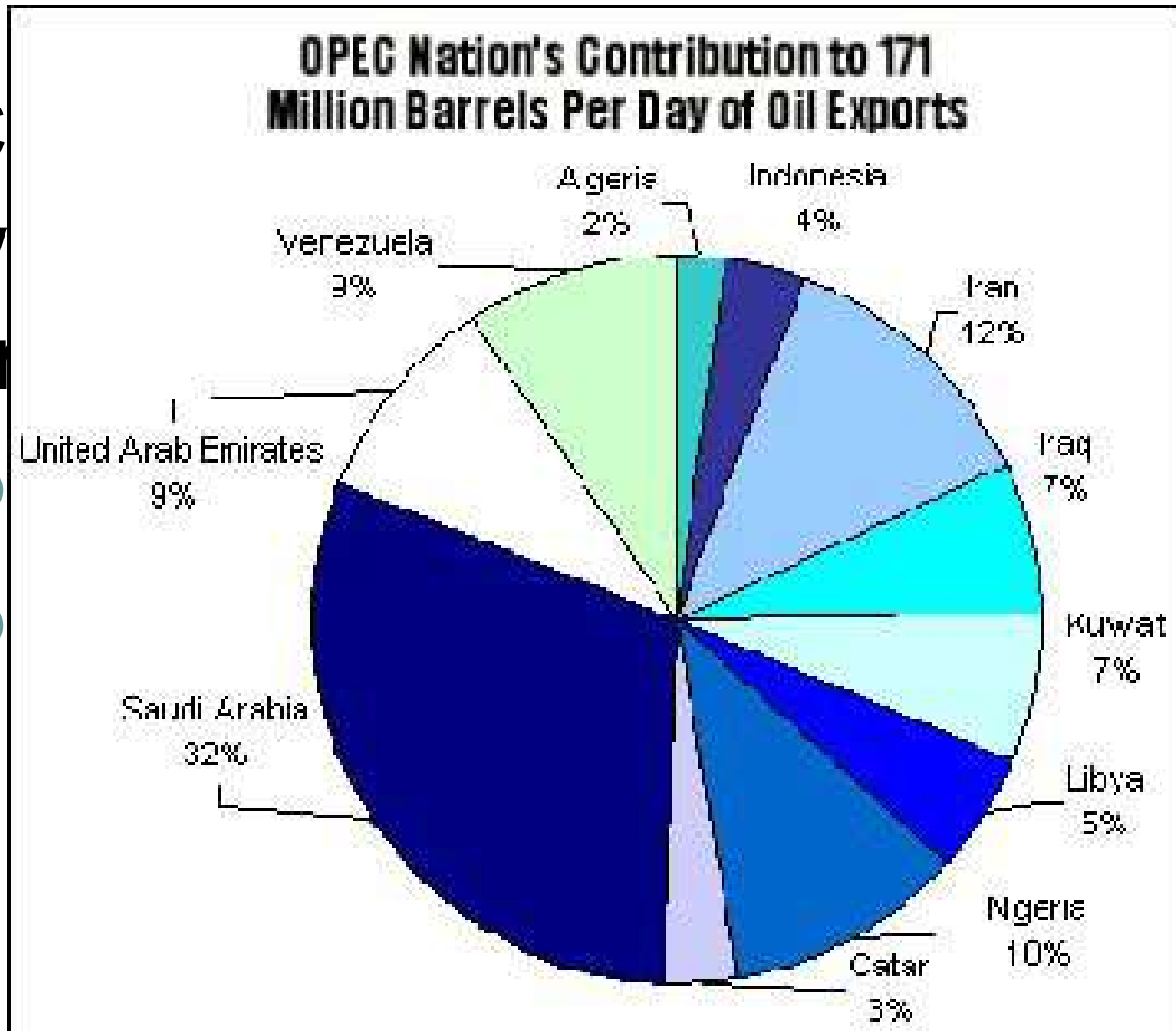
# Oligopolies at Work

- Collusion: when the major sellers set a price or production level
  - Typically the price is above equilibrium, but there are no cheaper substitutes



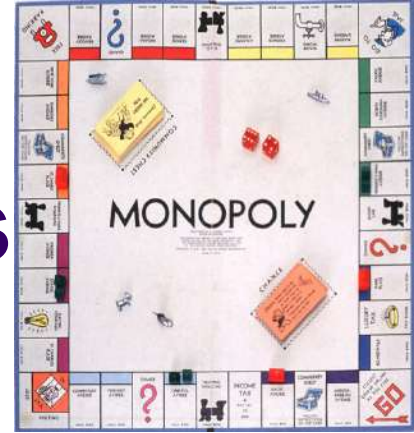
# Oligopolies at Work

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# 3 Conditions for Monopolies



- 1. Single Seller
  - Total control of production and price setting
- 2. No reasonable substitutes
  - Forces demand for good, even if prices are too high
- 3. Difficult or Impossible Market Entry
  - Too high start-up costs or too technical field



# Examples of Monopolies or near



***ticketmaster***

• Currently under

rying  
of

the

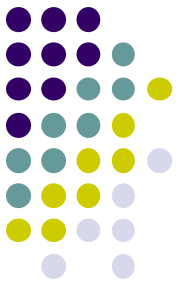
- 
- Had competition from Livenation, but are currently under negotiations to buy Livenation

• Allegedly, the company has 11,800 employees, but is claiming ebay/amazon as competition

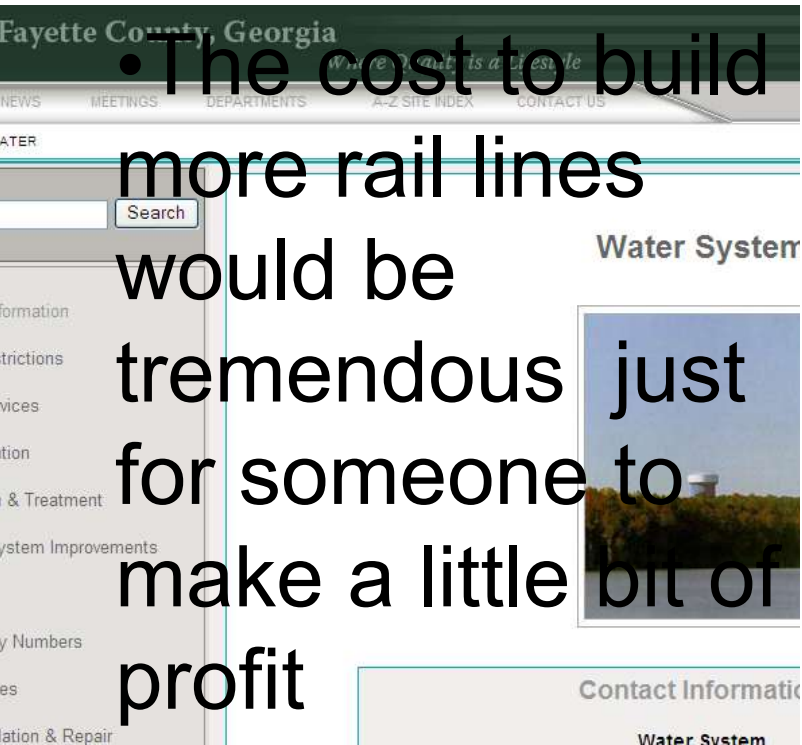


**TM**

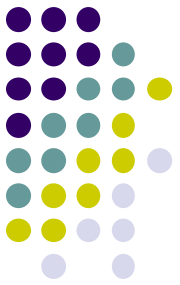
# Not all Monopolies are “bad”



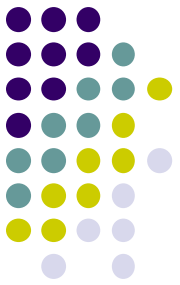
• The cost to build more rail lines would be tremendous just for someone to make a little bit of profit



# Why not charge outrageous prices?



- **1. Consumer Demand:** Increase in price of *too* much would cause demand of zero
- **2. Potential Competition:** Startup costs are extremely high, but if prices got high enough, entrepreneurs would have incentive to enter
- **3. Government Regulation**



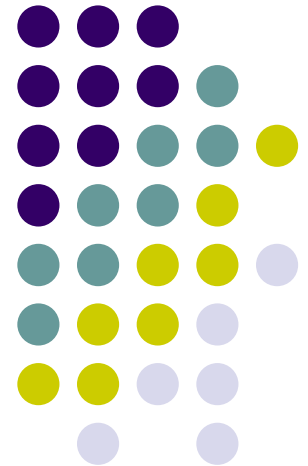
**No journal.**

**Get out the market structures sheet  
from yesterday.**

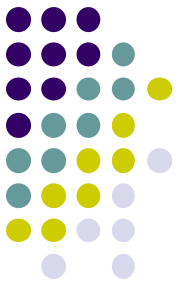
**Complete the market structure practice  
sheet**

# Business Organizations

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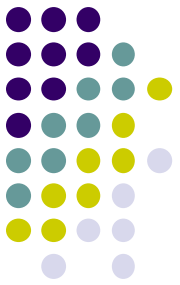


# GPS



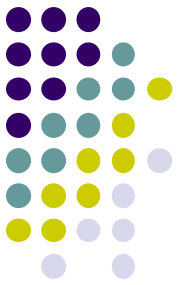
- **SSEMI3 Explain the organization and role of business and analyze the four types of market structures in the U.S. economy.**
- I Can Compare and contrast three forms of business organization—sole proprietorship, partnership, and corporation in regards to Number of Owners, Liability, lifespan, decision making, and taxation.





# Business Organizations

- 3 basic business structures
  - Sole Proprietorship – one person owns/manages
  - Partnership – 2 or a small group
  - Corporation – a group of shareholders
- Each has various costs and benefits
- All types must deal with 4 general issues
  - Liability, life expectancy, financial options, and taxes



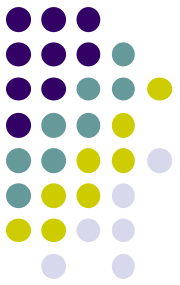
# Sole Proprietorships

## Advantages

- Low start-up costs
- Keeps all profits
- Full control
- Can respond to market quickly
- Easy to discontinue

## Disadvantages

- 100% Owner liability
  - Legal, debt, taxes, etc
- Life expectancy of company
- Limited access to resources



# Partnerships

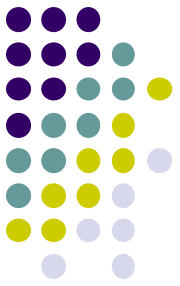
## Advantages

- Low startup costs
- Take advantage of specialization
- Larger pool of capital
- Somewhat limited liability

## Disadvantages

- Potential for conflict
- Split profits
- Unlimited liability
  - General partnership vs. limited liability

# Corporations

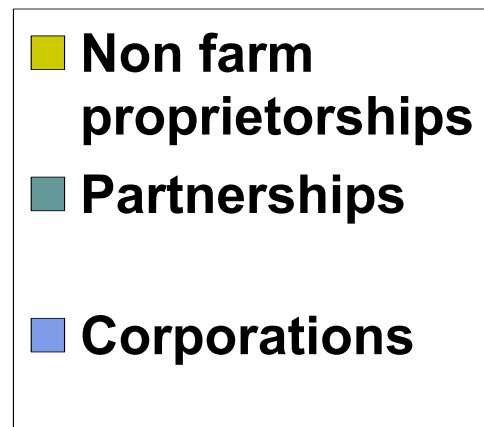
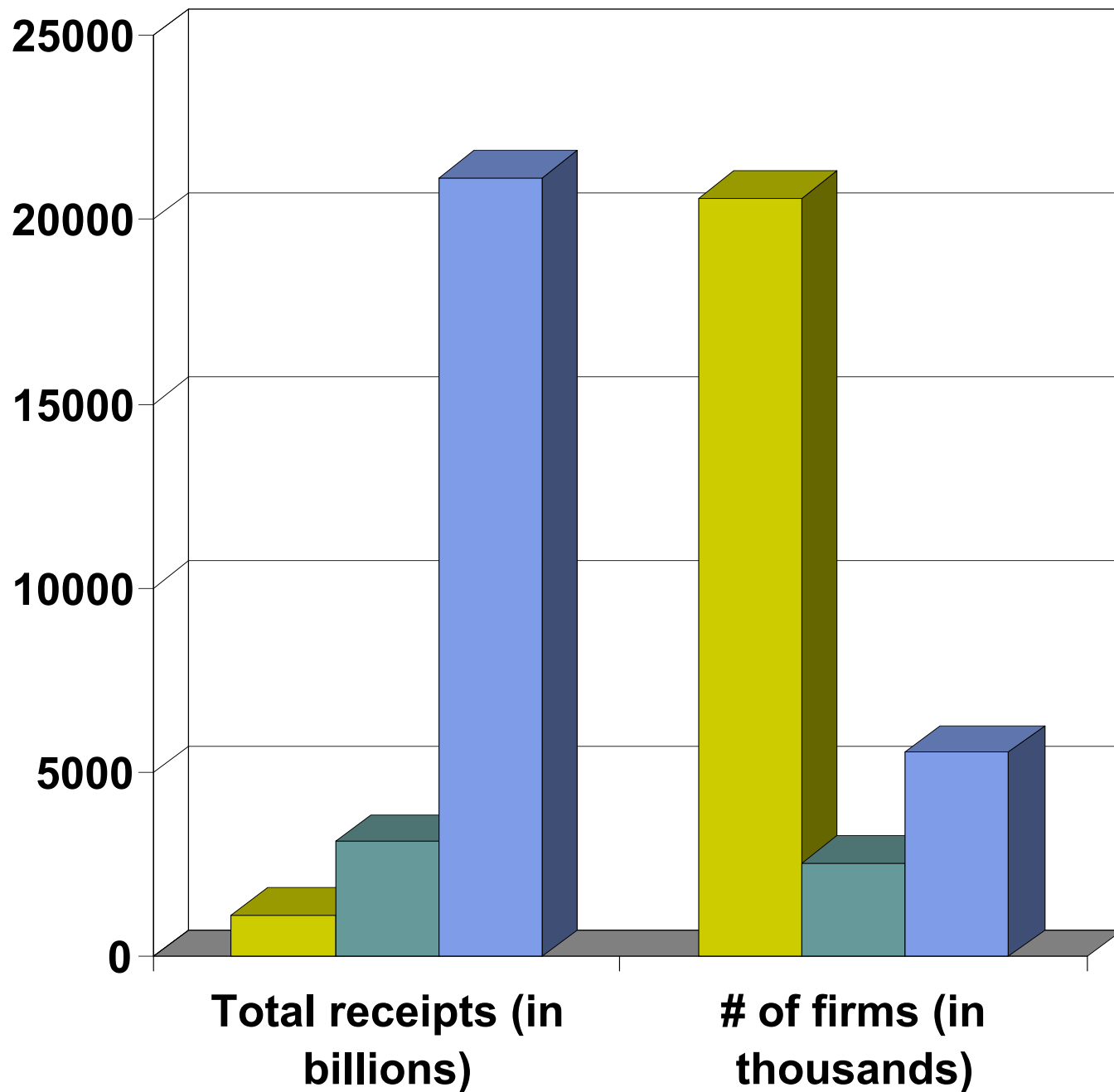


## Advantages

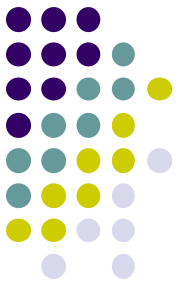
- Limited liability
- Much larger pool of capital
- Take advantage of specialization
- Prestige

## Disadvantages

- Difficulty of startup
  - corporate charter, stocks
- Double taxation
  - The corporation is a SEPARATE individual from the people who run it.
- Loss of control
- More regulation



# What's On the Test



- Specialization/Voluntary Exchange
  - Why do people trade?
  - Why do we specialize?
- Circular Flow
  - Which direction do the arrows flow?
  - What are the components?
- Market Structures
  - What are the characteristics of the 4?
  - How does each structure affect prices/profits?
- Business Organizations
  - Pros/Cons of each type of Organization
- Supply/Demand
  - How are prices set in a market?
  - Law of Supply/Law of Demand
  - RIPEN/GRENT
  - What happens to equilibrium price/quantity when supply/demand shift
  - Price Floors/Ceilings