**TOPIC 6 MARKET STRUCTURES**

LVL I: As you read, answer the questions that follow

1. Which market is most difficult to enter?
2. Which market is the easiest to enter?
3. What is an example of a modern-day monopoly?
4. What is an example of an oligopoly?
5. What is an example of monopolistic competition?

**Identify the basic characteristics of monopoly, oligopoly, monopolistic competition, and pure (perfect) competition with regards to number of sellers, barriers to entry, price control, and product differentiation.**

**Pure (Perfect) Competition** is a market structure characterized by a large number of buyer and sellers of an identical product. (Example: commodities like crude oil) **Monopolistic Competition** refers to a market structure characterized by a large number of buyers and sellers of products that are similar to one another be can be differentiated by brand, quality, etc. (Example: restaurants and retail clothing sellers) An **oligopoly** is a market structure characterized by only a few sellers of a product who dominate the market. (Example: breakfast cereals and natural gas) A **Monopoly** is a market structure characterized by only one seller of a product dominating the market. (Example: electrical power companies and cable television companies) The following characteristics are usually important when distinguishing between the four market structures:

**Number of Sellers:** Are there many, few, or one seller(s) of the product? The more sellers there are the more competitive the market is.

**Barriers to Entry:** Are there any obstacles that prevent other firms from entering the market for the good? If barriers are weak or absent from the market, the market will be more competitive. **Price Control:** Can the individual firms in the market for a product exercise any control over the price they charge? The weaker the control over price, the more competitive the market.

**Product Differentiation:** Is there any difference between the products sold by the sellers in the market for the good? If the products sold by the firms in the market are identical, there is no reason for sellers to engage in non-price competition which refers to methods other than price used to attract customers.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Type of Market Structure** | **Number of Sellers** | **Barriers to Entry** | **Price Control** | **Product Differentiation** |
| **Pure (Perfect)**  **Competition** | Many | Low or No Barriers | None – price taker - must take the market price | None – products are identical |
| **Monopolistic**  **Competition** | Many | Low or No Barriers | Some | Yes - firms must engage in non-price competition to  distinguish their  products from those of  competitors |
| **Oligopoly** | Few | High Barriers | Yes –price leadership  – when one firm increases or  decreases price, the others will follow to  maintain market share | Varies – Oligopoly markets may sell identical or differentiated products – those with differentiated  products will use non-price  competition |
| **Monopoly** | One | High Barriers | Strong Control over Price | Not Applicable – there is only one  seller’s product |

**LVL II APPLICATION**

Directions: Read the descriptions of the businesses provided. Analyze each description, identify the market structure that best characterizes the business, and explain your reasoning. The four market structures are:

* pure competition
* oligopoly
* monopolistic competition
* monopoly

1) Healthy and Hearty Soups: Healthy and Hearty Soups produces a variety of soups. There is considerable competition in the soup market. However, Healthy and Hearty Soups has spent several million dollars on an advertising campaign to convince consumers that their soups are healthier than all other soups. Because of this advertising, Healthy and Hearty Soups charges a higher price than other soups on the market.

Type of Market Structure: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Reason:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2) Bill's Salmon Supplier: Bill's Salmon Supplier sells fresh salmon to local seafood restaurants. Every morning Bill sails out to sea to catch salmon, and each afternoon he returns to sell his catch to local restaurants. There are hundreds of other fishers catching and selling salmon. Because the salmon Bill catches is just like the salmon caught by the other fishers, he can't raise his price.

Type of Market Structure: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Reason:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

3) County Cable: County Cable supplies cable access to all local residents. It was a very expensive business to start. The entrepreneurs who started County Cable had to provide underground wire for the entire community. Other companies tried to compete, but the start-up costs were simply too high.

Type of Market Structure: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Reason:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

4) Perfect Picture Cameras: Perfect Picture Cameras is a national camera company. It competes with a couple of other national camera companies. In order to gain an upper hand in the market, Perfect Picture Cameras has differentiated its camera by including an automatic focus and flash. Perfect Picture Cameras has the ability to raise its prices because of its unique features. However, federal regulators are always watching the company to ensure that no collusion occurs with other camera companies.

Type of Market Structure: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Reason:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_