Market Structure

1. Perfect Competition
2. Monopoly
3. Monopolistic Competition
4. Oligopoly

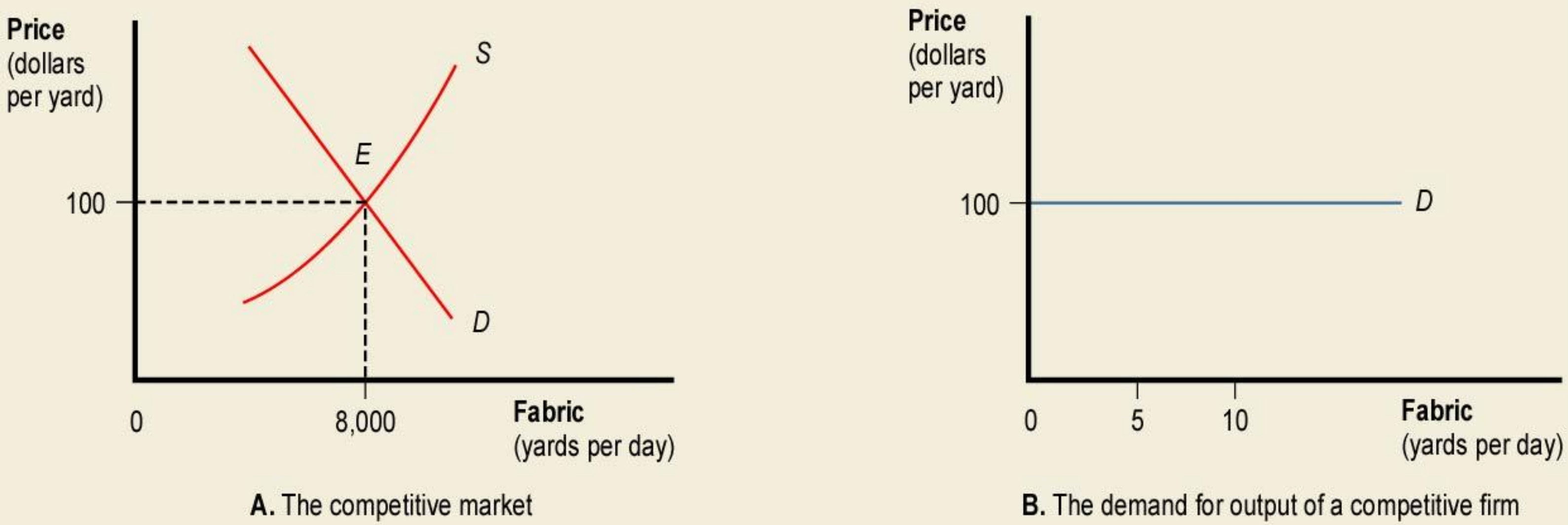
Perfect Competition

- *Many sellers.*
- *Standardized product.*
- *Sellers have small shares of the market.*
- *Firms don't consider the reactions of competitors when deciding how much to produce or what price to charge.*
- *Free entry into and exit from the market.*

Box 1. Market Price and the Demand for the Output of a Competitive Firm

Box 1 **Market Price and the Demand for the Output of a Competitive Firm**

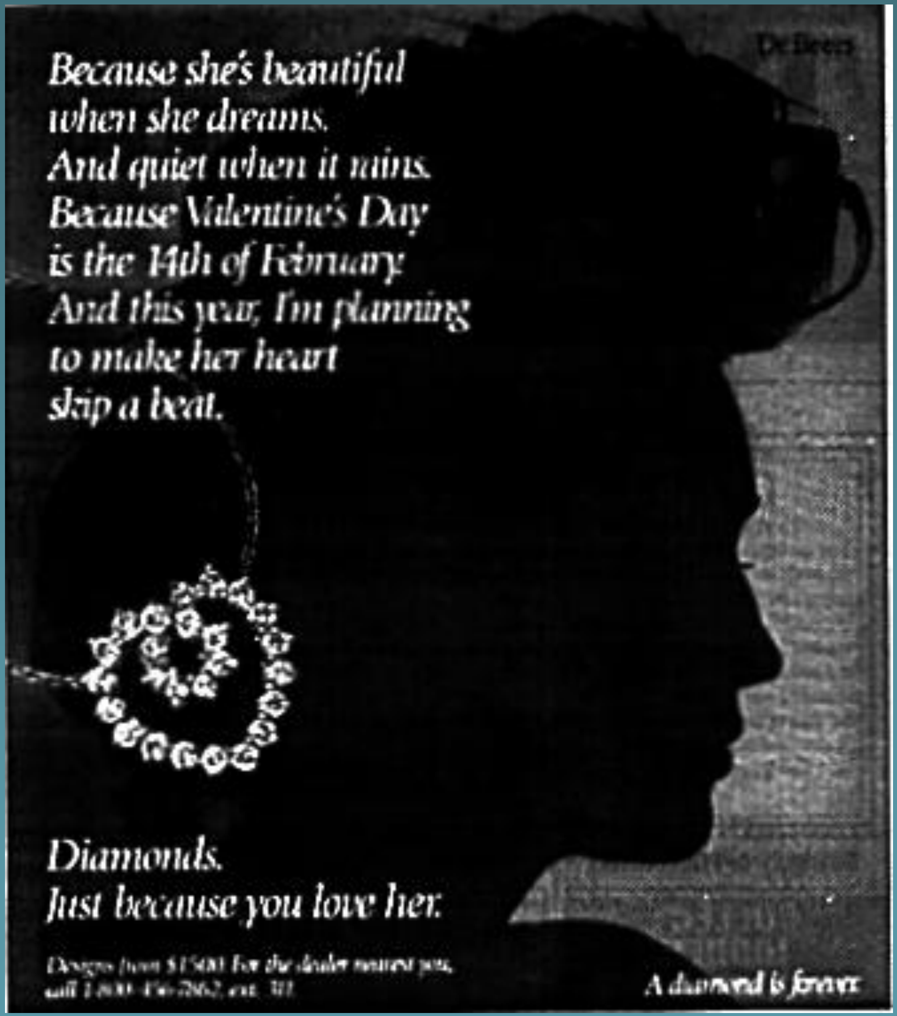
The market price of fabric is $100. A competitive firm can sell all the fabric it wishes at that price. The demand for a competitive firm's output is infinitely elastic at the market price. The output of any one firm is a perfect substitute for that of any other firm.



Pure Monopoly

- *A single seller of a product that has no close substitutes.*
- *Barriers to entry of additional sellers in the market must prevail for a profitable monopoly to be maintained:*
    - *Patents, secret processes, control of a key input, cost advantage of large-scale production, government franchises, special ability or technological advantages others can't duplicate, force and coercion.*

De Beers: A large multinational firm that monopolized the worldwide sale of diamonds through a cartel-like syndicate.



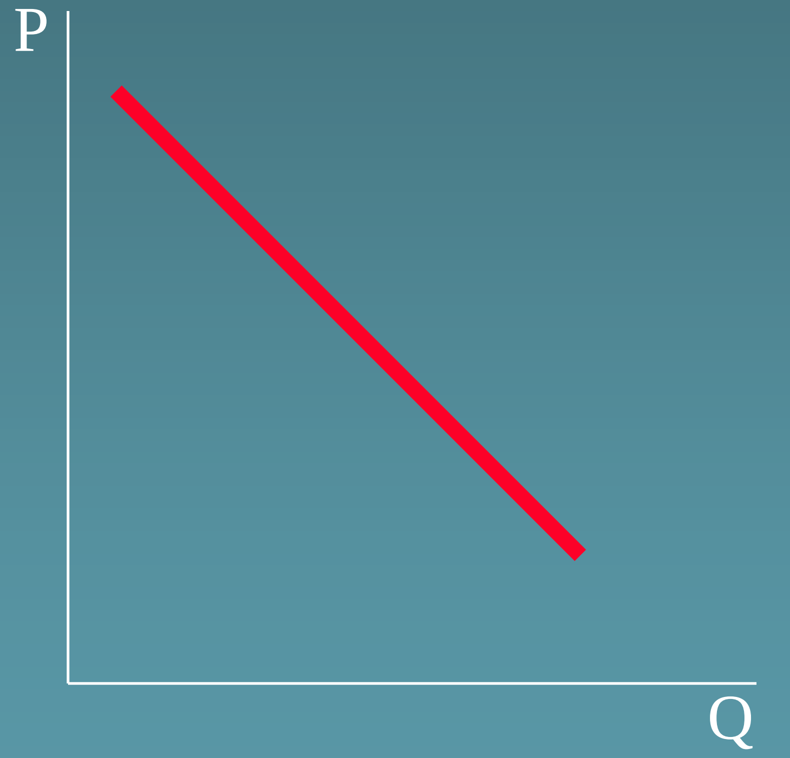
Natural monopoly I

A firm that emerges as a single seller in the market because of cost or technological advantages contributing to low average costs of production.

For example, a local electric company is a natural monopoly if the average cost of producing the quantity of electricity currently demanded is higher when more than one firm sells electricity.

The demand for a monopolist's product is the market demand.

- *To sell more, the more the firm must lower the price.*
- *The amount the seller chooses to offer for sale will influence the market price of the product.*



Price Discrimination I

THE PRACTICE OF SELLING A CERTAIN PRODUCT OF GIVEN QUALITY AND COST PER UNIT AT DIFFERENT PRICES TO DIFFERENT BUYERS

CONDITIONS:

1. *The seller must be able to control the price of its product.*

2. *The product that's sold at more than one price must not be resalable.*

3. *The seller must be able to determine how willingness and ability to pay vary among prospective buyers.*

Imperfect Competition

- *Prevails when more than one seller competes for sales with other sellers of similar products, each of which has some control over price.*
- *Under monopolistic competition, control of price comes from the differentiation of products among sellers.*
- *Under oligopoly, a few sellers with large market shares can influence price by controlling market supply.*

Monopolistic Competition

- *Many sellers.*
- *Each seller's product is differentiated by brand name, quality, or other means.*
- *Free entry is possible in the market.*
- *Firms are grouped into industries according to the similarity of their products.*
- *Firms don't consider the reactions of their rivals when pricing products or setting sales goals.*

Product group

- *represents several closely related, but not identical, items that serve the same general purpose for consumers.*

Oligopoly

- *A few sellers dominate the sales of a product.*
- *Entry of new sellers into the market is difficult or impossible.*
- *At least some firms have a large enough share of the market to influence the price.*
- *Firms consider their rivals' reactions when setting prices, sales targets, or advertising.*

Oligopolistic Price Wars and Market Contestability

- *A price war is the continual cutting of prices in a market by oligopolistic rivals until P = ACmin. Firms cut prices thinking their rivals won't follow. Once P = ACmin, firms fear rivals won't follow price increases.*
- *Market contestability also pushes prices down, to P = ACmin, as firms fear raising prices will attract new rivals.*

Collusion and Cartels

- *Fear of a price war provides incentive for oligopolistic rivals to collude to keep prices high and to prevent entry of new firms.*
- *A cartel is a group of firms acting together to coordinate output decisions and control prices as if they were a monopoly. To be successful, cartels must prevent new firms from entering their market.*

Other Oligopoly Models

- *In some markets, one firm acts as a price leader, setting prices to maximize profits, and other firms follow.*
- *In some markets, price rigidity results when firms fear their rivals won't match price increases, but will match price cuts--this results in a kinked demand curve.*