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Task 4: Market structure

Market structure refers to the characteristics of a market that influence how firms behave, how prices are set, and how resources are allocated. The main types of market structures are perfect competition, monopoly, monopolistic comepetition, and oligopoly. Each structure differs in the number of sellers, the degree of product differentiation, entry conditions, and the level of control firms have over price.

1. perfect competition: perfect competition represents an ideal market with the highest level of competition.

key characteristics

- many sellers offering the same product.
- Homogeneous products, meaning every seller's product is identical.
- Firms do not conder rivals' reaction when choosing price or out put.
- Free entry and exit, so firms can join or leave the market without difficulty.
- Information is freely available to all buyers and sellers.

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Because no firm has market power, each seller is a price taker. A competitive firm must accept the market price and cannot influence it. Its own demand curve is perfectly elastic, meaning it can sell any quantity at the market price but nothing at a higher price.

2. pure Monopoly: A monopoly exists when a single seller supplies the entire market and the product has no close substitutes.

A monopolist can influence the market price by adjusting the quantity it provides. The demand for the monopolist's product is the market demand curve, which slopes downward. To sell more, the monopolist must lower the price.

Barriers to Entry: For a monopoly to exist and remain profitable, strong barries to entry must prevent other firms from entering the market. These barries include: • Goverment franchises and licensing requirement • patents and copyrights, granting exclusive rights • Ownership of an entire key reasource • Cost advantages from large-scale production • Special skills or technological superiority.

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Natural Monopoly: A natural monopoly occurs when one firm can supply the whole market at a lower cost than multiple firms due to significant economies of scale, resulting in lower average costs as output increases.

price Discrimination: Monopolists may use price discrimination - selling the same product at different prices to different buyers - if there conditione are met: 1. The seller has control over price 2. The product cannot be resold between buyers 3. The seller can identify different willingness to pay among buyers.

Imperfect competition:

Imperfect competition include all market structures in which firms have some degree of market power. The two main types are monopolistic competition and oligopoly.

1. Monopolistic competition: This market structure combines feature of competition and monopoly.

characteristics: • many sellers, but fewer than in perfect competition • product differentiation, meaning each seller's product is slightly different. • Free entry and exit in the long run. • Firms are grouped into industries based on similarity of their products. • Firms generally do not consider rivals' reactions

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when setting prices.

5. Oligopoly: An oligopoly exists when a few large firms dominate the market.

Oligopolistic Bahavior: • price Wars: Rivals repeatedly cut prices, often until the price reaches the minimum average cost. Firms fear other rivals may not match price increases, causing prices to remain low. • Market contestability: if markets are easily contestable, firms avoid raising prices to prevent attracting potential competitors. This also drives prices toward minimum average cost.