Competitive Environment and Competitive Markets

by

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Contents

Market, Market Structure & Types

- <u>Market</u>
  A place where buyers and sellers of a particular product interact with each other.

- <u>Market Structure</u>
  Competitive environment where buyer and seller of a particular product operate.

- <u>Types of Market Structure</u>
  (i) Perfect Competition
  (ii) Monopoly
  (iii) Monopolistic Competition
  (iv) Oligopoly

- Monopoly, Monopolistic Competition and Oligopoly represents Imperfect Competition.

Market Structure

- <u>Market structure depends on</u>

a) Size of buyers

b) Sellers of product

c) Type of product bought and sold

d) Degree of mobility of resources

e) Degree of knowledge of economic agents

Perfect Competition

- Greater number of buyers and sellers.
- Each seller and buyer has limited power, so, cannot affect market price generally.
- Homogeneous, identical and perfectly standardized products are being sold on.
- Firms can enter or leave industry without much difficulty.
- No patents or copy rights, neither vast amount of capital is required to enter into market.
- No advantage for well established firms on the basis of experience or size.

Perfect Competition

- Perfect knowledge to Present and Future prices, costs and economic opportunities.
- Price differences are quickly eliminated.
- Perfectly Competitive Firm is "Price Taker".
- Products are homogenous.
- MR>MC, Expand Output, Total Profit Increase or Total Loss Decreases
- MR<MC, Reduce Output, Reduce Total Costs than Total Revenue
- Horizontal or Infinitely Elastic Demand

Perfect Competition

- All inputs and costs of production are variable.
- If market is profitable then;

- More opportunities for new entrants
- Increases market supply
- Reduces Prices
- Profits Squeeze out

Perfect Competition

- <u>If market is loss making;</u>
- Firms will leave market
- Reduces Market supply
- <u>In Perfect Competitive Markets;</u>
- Equilibrium is rarely achieved
- Consumers tastes are constantly changing
- Market demand curve are shifting

Monopoly

- Single firm dominates the market.
- Profits could be earned because
- No close substitutes.
- Entry into market is blocked.
- Monopolistic can sell more units by reducing selling price.

Monopoly

- <u>Factors of Monopoly</u>

- Control over supply
- Copy Right or Patent Protection
- Economies of Scale
(Natural Monopoly-Single firm monopoly)
- Government Involvement (Franchise)

Monopoly

- Pure monopoly in rare cases; normally forbidden by laws (Price Controls)
- Monopolistic also faces indirect competition
- Consumer’s spending
- Fear of government prosection
- Threat of potential competition

Monopolistic Competition

- Blend of monopoly and competition.
- Most common form of competition in retail and services(Textiles, Clothing, Shoe Stores, Beauty Salons etc)
- Entry and exit is relatively easy into market.
- Many sellers of heterogenous/differentiated products (Low power, close substitutes)
- Differentiated Products (Same but not identical products to fulfill basic needs) (Toothpaste, Detergents, Cereals etc)
- Some monopoly due to product features, service quality, lower price etc.

Monopolistic Competition

- No single equilibrium price (each seller has different price)
- <u>Monopolistically Competitive Model</u>
- All firms selling same products face identical demand and cost curves
- Unrealistic Model due to availability of differentiated products
- Demand Curve is negative, highly price elastic
- Excess Capacity

Competition in Global Economy

- Domestic goods vs Imported Goods
- Foreign Exchange Market
- International Currency for Imported Goods. E.g Dollar ($)
- Exchange Rate
- Depreciation of Currency
- Appreciation of Currency

Market Structures- Summary

Type of Market	Number of Sellers	Nature of Product	Number of Buyers	Entry-Exit Barriers	Information on Price and Goods	Efficiency and Remedy
Perfect Competition	Large	Homogenous	Large	Nil	Perfect	Perfect: No remedy
Monopolistic	Many	Differentiated	Large	Very Low	Less than Perfect	High: Negligible Remedies
Oligopoly	Few	Either	Many	Moderate	Imperfect	Varies; Constant watch needed
Duopoly	Two	Close Replica	Many	High	Imperfect	Low; Watch and Inter-vention
Monopoly	One	Unique	Many	Very High	Imperfect	Low; Watch and Inter-vention

Oligopoly
and
Oligopoly Models

Oligopoly

- One of most prevalent form of market structure

- Few sellers

- Homogenous or differentiated products

- <u>Pure Oligopoly</u>
- Products homogenous

- <u>Differentiated Oligopoly</u>
- Differentiated

Oligopoly

- Duopoly
- Two sellers

- Entry into market is possible but not very easy (Few sellers, price limitations)

- Actions/activities of firm one affects the other firm.

- Non-Price Competition
- Competition on basis of product differentiation (Quality, features etc)

- Interdependence or rivalry among firms in industry

- Own actions/activities also play major role in oligopoly

Oligopoly

- No single model for Oligopoly
- Multiple Oligopoly models based on behavioral response of competitors
- Complexity in decision making

Oligopoly

- <u>Sources of Oligopoly</u>

I. Economies of Scale

II. Significant Capital Investment

III. Copy Rights or Patents

IV. Customer Loyalty

V. Firms control over supply

VI. Government Role

Home Assignment

- <u>Detailed Notes on</u>
- Perfect Competition
- Monopoly
- Monopolistic Competition
- Competition in Global Economy
- Comparison of Perfect Competition

Good Luck