Market Structures
Why look at market structure?

• Not every business operates in the same kind of market

• Each market has its own set of characteristics
  ▪ The number of sellers
  ▪ The good/service they produce
  ▪ Difficulty of entering or leaving the market

• The type of market determines price
Perfect Competition

1. A very large number of sellers
   - Hundreds or thousands
   - Usually agriculture products or things that are not man-made

2. They are selling identical products
   - Each “market” sells the same thing
   - There is no reason for non-price competition (advertising) since it's all the same
Perfect Competition

3. No price controls
   • Too many producers and consumers
   • No one seller controls price
   • Prices are set by the market, not the firm

4. No or very few barriers to entry
   • Very few barriers to keeping new sellers out - very easy to enter and exit the market
Perfect Competition

Examples:
- Farmers/ Agriculture Producers: orange growers, sweet corn growers, apple growers, wheat growers
- Fisheries: bass, trout, salmon

No Tools of Competition 😞
Monopolistic Competition

1. Many buyers and sellers exist
   - About 100
   - Firms act independently and no single firm is large enough to change the market alone

2. Firms sell slightly different products
   - Each seller is trying to make its product a little bit unique
   - Even virtually identical products are differentiated by brand name, packaging, design – but are still similar
Monopolistic Competition

3. Sellers have some control over price
   - No one seller has enough power to change price
   - Buyers are well informed about the differences in products
   - Use of non-price competition to gain customers
     - Advertising
     - Improved service
     - Reliance on reputation

4. Some barriers to entry
   - Fairly easy to enter and exit the market
Monopolistic Competition

Examples:

- **Toothpaste:** Crest, Colgate, Aquafresh, Sensodine, Arm & Hammer, etc.
- **Laundry Detergent:** Tide, All, Simple Truth, Cheer, Gain, etc.
- **Cosmetics:** MAC, Maybelline, Cover Girl, Loreal, NYC, Urban Decay, Clinique
Tools of Competition

- Product differentiation creates buyer loyalty
- Buyer loyalty allows firms to slowly increase price
  - Not too much, or they will switch brands
- Most common market structure

Stop & Think
1. Think of a product that you are loyal to & its price.
2. What is the price at which you would stop buying it?
3. What substitute product would you buy instead?
Oligopolies

1. Small number of firms control the market
   • 3-5 firms controlling at least 70% of the market
   • Many other firms exist, but with little influence

2. Selling similar products
   • Sometimes more similar: soda, cereal, oil
   • Sometimes more different: cars, movie production
Oligopolies

3. **Price is significantly controlled by firms**
   - This is possible because of brand loyalty and ease of access
   - Product information is easily available
   - Use non-price competition (advertising)

4. **High barriers to entry**
   - It’s hard to get in to the “group”
   - They have their own patents and raw materials, making it hard to compete
Oligopolies

Examples:

- **Phone companies**: Verizon, Sprint, U.S. Cellular, AT&T
- **TV Networks**: NBC, CBS, ABC, Fox
- **Car Companies**: Ford, General Motors, Chrysler
Tools of Competition

• Price Leadership:
  • When one firm offers a new product at a certain price, the others must follow for fear of losing customers

• Cartels
  • Organizations in which agreements are made to cooperate and reduce competition among the firms

Stop & Talk

Why would oligopolies want to reduce competition?
Monopolies

1. One firm controls the market
   - The only seller that consumers have access to
   - Sometimes on purpose, sometimes by chance

2. Product is completely unique
   - There are no close substitutes - is the only one of its kind around
Monopolies

3. Almost complete control of price
   - Because they are the only seller!
   - Sometimes the government requires/provides some regulations

4. Barriers to enter the market are extremely high
   - Nearly impossible to become a monopoly
   - Very few monopolies exist

Are monopolies legal?
4 Types of Legal Monopolies

1. **Natural Monopoly**
   - In sectors where competition would be chaotic or impractical, or costs are lowest when only one firm exists
   - Ex: Utility Companies (gas, electric, trash)

2. **Government Monopoly**
   - Deal mostly with economic products needed for public welfare
   - Ex: interstate highway system, public schools, post office

3. **Geographic Monopoly**
   - When a firm is the only seller of a good in a specific location - by chance
   - Ex: The only general store in a small town

4. **Technological Monopoly**
   - Usually the result of a patent on a new invention or technology
   - Ex: Polaroid Camera
Market Structure Word Scramble
Put the concepts in yellow under the heading to which they belong.

Oligopoly
1. Own patents and raw materials
2. Less than 100 sellers
3. One seller
4. Easiest to enter
5. Most control of price

Perfect Competition
1. Most common structure
2. Watermelon
3. Completely unique product
4. Sometimes Illegal
5. No Price Controls

Pure Monopoly
1. Monopolistic Competition
2. No Price Controls
3. Large Number of Sellers
4. Buyer Loyalty
5. Price Leadership is used

Monopolistic Competition
1. Similar products
2. AT&T, Verizon, Sprint-Nextel, T-Mobile
3. Natural, Geographic, Technological, & Governmental
4. Large Number of Sellers
5. A few control 70% of the market

Identical product

Price Leadership

Buyer Loyalty

Toothpaste, Laundry Detergent
Market Structure Word Scramble
Put the concepts in yellow under the heading to which they belong.

A few control 70% of the market
Natural, Geographic, Technological, & Governmental
AT&T, Verizon, Sprint-Nextel, T-Mobile
Identical product
Similar products
Price Leadership is used
Buyer Loyalty
Toothpaste, Laundry Detergent
Large Number of Sellers

Oligopoly
1. Few control 70%
2. Verizon, Sprint, US Cellular
3. Price leadership
4. Difficult to enter
5. High barriers to entry

Perfect Competition
1. Watermelon
2. Largest number of sellers
3. Easiest to enter
4. Identical product
5. No price controls

Pure Monopoly
1. Sometimes illegal
2. Completely unique product
3. Nat, Geo, Tech, Gov
4. Most control of price
5. One seller

Monopolistic Competition
1. Similar products
2. Toothpaste, laundry detergent
3. Most common structure
4. Less than 100 sellers
5. Buyer loyalty

High barriers to entry
Less than 100 sellers
One seller
Easiest to enter
Most control of price
Difficult to enter
Most common structure
Watermelon
Completely unique product
Sometimes Illegal
No Price Controls