Market Structures

Perfect Competition

1. Many buyers and sellers in the market

2. sellers offer identical products

3. buyers and sellers are well informed about products

4. sellers are able to enter and exit the market freely

Commodity: a product that is the same no matter who produces it. Ex: milk, notebook paper, petroleum

Perfectly competitive markets are efficient at equilibrium

Few markets are perfectly competitive because barriers keep the companies from entering or leaving markets easily

* Start-up costs are high
* Many require high degrees of technology

Monopoly

A market dominated by a single seller

No variety of goods and the seller has complete control over prices

Forms when barriers prevent firms from entering a market with only one seller

Natural Monopoly: a market that runs most efficiently when one large firm supplies all of the output

Ex: public output

Government Monopoly: a monopoly created by the government

Ex: allowing a natural monopoly to form

Ex: patent: inventor of the new product has exclusive rights to sell it

Ex: Franchise: contract issues by a local authority that gives a single firm the right to sell its goods within an exclusive market

(Remember one of the goals of the government in the US has been to encourage competition in the economy)

Antitrust laws: laws that encourage competition in the market

(Example: Sherman Antitrust Act: banned monopolies and other business combination that prevented competition in 1890)…the act was used to break up companies like AT&T

Oligopoly: a market structure in which a few large firms dominate a market (4 largest firms produce 70-80% of the output)

* Barriers can also create oligopolies…like start-up costs and technology

Monopolistic Competition: a market structure in which many companies sell products, are similar but not identical

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| --- | --- | --- | --- |
|  | Monopolistic Competition | Oligopoly | Monopoly |
| # of firms | Many | Few Dominate | One |
| Variety of goods | Some | Some | None |
| Control over prices | Little | Some | Complete |
| Barriers to entry | Low | High | Complete |
| Examples | Jeans | Movie Studios | Public Water |

Other Vocabulary:

Communism: a political system characterized by a centrally planned economy with all economic and political power resting in the hands of the central government (command)

Socialism: a system in which the government owns some factors of production and distributes wealth among citizens (command, mixed)

Capitalism: a system in which private citizens own most, if not all, of the means of production and decide how to use them with legislated limits (market)