

Chapter 1 : The 4 Types Of Economic Systems Explained

Understanding the definition of market structure and the differences within these four types allows you to be understand the context under which a company in question functions. The dynamic relationships among and between sellers and buyers changes pricing, profits and production levels.

May 19, by Will Gemma There are four primary types of economic systems in the world: Each economy has its strengths and weaknesses, its sub-economies and tendencies, and, of course, a troubled history. Below we examine each system in turn and give ample attention to the attributes listed above. Anyone interested in economics on a global level should check out this fantastic course on the crisis of capitalism and why the global economy is teetering on the verge of collapse.

Traditional Economic System A traditional economic system is the best place to start because it is, quite literally, the most traditional and ancient type of economy in the world. There are certain elements of a traditional economy that those in more advanced economies, such as Mixed, would like to see return to prominence. Where Tradition Is Cherished: Traditional economies still produce products and services that are a direct result of their beliefs, customs, traditions, religions, etc. Vast portions of the world still function under a traditional economic system. These areas tend to be rural, second- or third-world, and closely tied to the land, usually through farming. However, there is an increasingly small population of nomadic peoples, and while their economies are certainly traditional, they often interact with other economies in order to sell, trade, barter, etc. Learn about the complexities of globalization and how it shapes economic relationships and affects cultures with this great class on the geography of globalization. Traditional economies would never, ever, in a million years see the type of profit or surplus that results from a market or mixed economy. In general, surplus is a rare thing. There is also the fact that each member of a traditional economy has a more specific and pronounced role, and these societies are often very close-knit and socially satisfied. The main disadvantage is that traditional economies do not enjoy the things other economies take for granted: Western medicine, centralized utilities, technology, etc. But as anyone in America can attest, these things do not guarantee happiness, peace, social or, most ironically of all, economic stability.

Command Economic System In terms of economic advancement, the command economic system is the next step up from a traditional economy. This by no means indicates that it is fairer or an exact improvement; there are many things fundamentally wrong with a command economy. The most notable feature of a command economy is that a large part of the economic system is controlled by a centralized power; often, a federal government. This kind of economy tends to develop when a country finds itself in possession of a very large amount of valuable resource s. The government then steps in and regulates the resource s. Often the government will own everything involved in the industrial process, from the equipment to the facilities. Interested in earning CFA certification? You can see how this kind of economy would, over time, create unrest among the general population. But there are actually several potential advantages, as long as the government uses intelligent regulations. First of all, a command economy is capable of creating a healthy supply of its own resources and it generally rewards its own people with affordable prices but because it is ultimately regulated by the government, it is ultimately priced by the government. Still, there is often no shortage of jobs as the government functions similarly to a market economy in that it wants to grow and grow upon its populace. Hand In The Cookie Jar: Interestingly â€” or maybe, predictably â€” the government in a command economy only desires to control its most valuable resources. Other things, like agriculture, are left to be regulated and run by the people. This is the nature of a command economy and many communist governments fall into this category. You should also consider this micro and macro economics program.

Market Economic System A market economy is very similar to a free market. The government does not control vital resources, valuable goods or any other major segment of the economy. In this way, organizations run by the people determine how the economy runs, how supply is generated, what demands are necessary, etc. No truly free market economy exists in the world. For example, while America is a capitalist nation, our government still regulates or attempts to regulate fair trade, government programs, moral business, monopolies, etc. The advantage to capitalism is you can have an explosive economy that is very well controlled and relatively safe. This would

be contrasted to socialism, in which the government like a command economy controls and owns the most profitable and vital industries but allows the rest of the market to operate freely; that is, price is allowed to fluctuate freely based on supply and demand. If you want to know how the global economy works and the role you play in it, check out this sweet class on Economics Without Boundaries. Market Economy And Politics: Arguably the biggest advantage to a market economy at least, outside of economic benefits is the separation of the market and the government. This prevents the government from becoming too powerful, too controlling and too similar to the governments of the world that oppress their people while living lavishly on controlled resources. Yes, there is something wary about a system which to be successful must foster constant growth, but as a result progress and innovation have occurred at such incredible rates as to affect the way the world economy functions. Mixed Economic System A mixed economic system also known as a Dual Economy is just like it sounds a combination of economic systems , but it primarily refers to a mixture of a market and command economy for obvious reasons, a traditional economy does not typically mix well. As you can imagine, many variations exist, with some mixed economies being primarily free markets and others being strongly controlled by the government. Learn more about an essential part of our economy with this free post on understanding the stock market. Benefits Of A Mixed Economy: In the most common types of mixed economies, the market is more or less free of government ownership except for a few key areas. Instead, as in America, they are the government programs such as education, transportation, USPS, etc. While all of these industries also exist in the private sector in America, this is not always the case for a mixed economy. While a mixed economy can lead to incredible results America being the obvious example , it can also suffer from similar downfalls found in other economies. For example, the last hundred years in America has seen a rise in government power. Not just in imposing laws and regulations, but in actually gaining control, becoming more difficult to access while simultaneously becoming less flexible. This is a common tendency of mixed economies. Please Respect The Thin Line: A current, pivotal debate between Democrats and Republicans is the amount of governmental control. Can a true balance exist? Where should there be more government regulation? Where should there be less? These questions have no real answer; it is subjective, and therefore only a relatively small portion of the population will, at any given time, agree with the state of a mixed economy. It must be a strong form of government indeed to avoid collapsing under this constant pressure. But the progress of first-world nations allows slower economies to make faster, longer strides. In fact, there is even reason to hope: Learn more about your own government and economy with this top-rated course on how the economy really works in the 21st century.

Chapter 2 : Market Structure

The Four Types of Market Structures There are quite a few different market structures that can characterize an economy. However, if you are just getting started with this topic, you may want to look at the four basic types of market structures first.

Tweet on Twitter You can no more build a successful portfolio without the right mixture of stocks any more than you can construct a skyscraper in Tornado Alley without the right mixture of building materials. Also, if you want the best stock picks, we found the Motley Fool to provide the best service. That begins with understanding how companies and markets work, how they compete and how they respond to changes. Understanding the four market structures provides a starting point for judging industry and market news, policy changes and legislation and how it shapes your investing decisions. So what kind of structures and materials define companies and markets? Generally, there are several basic defining characteristics of a market structure: The commodity or item that is sold and level of differentiation between them. The number of companies in the market, the ease or difficulty of entering the market and the distribution of market share of the largest firms. The number of buyers and how they work with or against sellers to influence price and quantity. The relationship between producers or sellers. We can use these characteristics to guide our discussion of the four types of market structures.

Perfect Competition Market Structure In a perfectly competitive market, the forces of supply and demand determine the amount of goods and services produced as well as market prices set by the companies in the market. Perfect competition assumes the environment or climate cooperates with the buildings within it. With so many competitors, the influence of one company or buyer is relatively small and does not affect the market as a whole. Buyers and sellers are referred to as price takers rather than price influencers. The products within the market are seen as homogenous, there is little difference between them. Not only are the products identical, information regarding product quality and price is perfectly and openly given to the public. The model assumes each producer is operating at the lowest possible cost to achieve the greatest possible output. The perfect competition model is difficult to find in operation. There are few agricultural and craft markets that may fit the theory. This model is primarily a reference point from which economists compare the other market structures.

Monopolistic Competition Market Structure Unlike perfect competition, monopolistic competition does not assume lowest possible cost production. That slight difference in definition leaves room for huge differences in how the companies operate in the market. Companies in a monopolistic competition structure sell very similar products with small differences they use as the basis of their marketing and advertising. This is completely different from the perfectly competitive market structure which excludes advertising. Consider bath soap – they are all pretty much the same as far as what makes it soap and its use, but small differences like fragrance, shape, added oils or color are used in advertising and in setting price. In monopolistic competition producers are price maximizers. When the profits are attractive, producers freely enter the market. The slight differences between the products also creates imperfect information regarding quality and price. Monopolistic competition markets are a hybrid of two extremes, the perfectly competitive market and monopoly. Examples of monopolistic competition markets are: **Monopoly Market Structure** Monopolies and perfectly competitive markets sit at either end of market structure extremes. The supplier is the price-maker, setting a price that maximizes profits. There are naturally occurring monopolies and those created through legislation, such as state-legislated liquor stores. However, several companies have been criticized as breaking antitrust laws including:

Chapter 3 : Important information about Four Market Structures

Types of market structure Perfect competition - Many firms, freedom of entry, homogeneous product, normal profit.
Monopoly - One firm dominates the market, barriers to entry, possibly supernormal profit.

What Are Markets in Economics? Video of the Day Brought to you by Techwalla Brought to you by Techwalla The buying and selling of goods in any market can go one of two ways. One, someone has a good to sell and will sell it for whatever price the market dictates is fair. In the other approach, the seller sets the price of their product and consumers must pay their price – think of finished goods like cars, smartphones, televisions and clothing. Consumers still have power in this market, because they can choose to buy competing products or simply refuse to buy a good or service. Then there are four kinds of markets, which fall into two basic categories – perfect and imperfect competition. Perfect Competition, also known as pure competition, is a stand-alone category and the first kind of market. In it, many different sellers compete, while the laws of supply and demand dictate pricing and availability of their merchandise or services. Entering or exiting the market as a business is easy to do, as regulations are not prohibitive. Their consumer awareness is also unfettered, as information about products and quality are openly known because the products are virtually indistinguishable from each other. But the closest examples would be agricultural markets, like soybeans or corn. Monopolistic Competition is almost a blend between perfect competition and monopoly, in which products are very similar, but the small differences between them are the basis of how their makers sell and advertise the products. Consider a Samsung smartphone versus iPhone. They are mostly the same in what they accomplish for the end user – they receive calls, take photos, surf the web, allow for other communications and are a computational device. And yet, vast sums are spent in marketing the two as being worlds apart, which is based on camera traits, feel, operating systems and other qualities that dictate brand loyalty. When one producer creates a successful product or enterprise, it attracts others in search of the same profits. From smartphones to beauty salons, there is little theoretical difference in what most products or services offer, but the differences are enough to build brand identity around. But their success inspired others, like Samsung, to invest more in developing their own competitive products. Pure Monopoly models are where a single product or maker controls the market. There are no competitors, and the provider can theoretically drive up prices as they like. Examples of pure monopolies include entities like utility companies and government-run liquor stores. Naturally-occurring monopolies are ones which happen because their industry is so cost-prohibitive to enter that they are the lone player. Railways, for instance, are monopolistic because laying new track and establishing new routes is so unfeasible for newcomers to the industry. They did this by fixing prices, restricting supplies and damaging smaller companies and entrepreneurs, while stifling innovation in the industry. There are pure oligopolies, such as the oil industry, where someone undercutting the competition would damage the market as a whole, but where higher prices would benefit the market, too. And this is where collusion can occur. An example would be the airline industry, where, for instance, baggage fees were nearly unheard of a decade ago, but now seemingly everyone has them. A general misconception is that the United States is a pure capitalist market founded upon pure competition. In actuality, the U. To be an absolute free market economy, there could be no government-owned property. Everything would need to be privately owned. There would be true supply-and-demand pricing with no regulation from the government. There would be no industry oversight. But free market economies are an abstract idea and absolutes do not exist in the world. Instead, America is a variation on a theme that exists in many countries – some capitalism, some socialism. This is what is called a mixed economic system. There are centrally planned economic controls spearheaded under the federal government, but there can also be regional controls administered by governments of states, counties and cities. The socialist element comes in the form of the government controlling the delivery of services like education, roadway maintenance, water utilities, emergency services, policing and so forth. Taxes are collected to the benefit of the greater good. As an example, roadways are important to have maintained because they allow for the free flow of people and goods, which is, in turn, beneficial to citizens and businesses, as well as regional economies. Even the national defense plan is a result

of a socialist policy. Regulation in business is widespread in the U. Want to be a hair stylist? You may need both a certification and a business permit. To sell food products, you might need approval from the Food and Drug Administration. Arguably, America takes the best elements of both the free marketplace and socialism and combines them for one of the most exciting economic markets in the world. What Is an Example of Monopolistic Competition? Monopolistic competition is probably the economic market you see the most in the world around you. Its defining traits are that barriers to entering the market are relatively low, allowing for greater competition, but that products and services are relatively similar, making competition even stronger. Fast food restaurants are an example of monopolistic competition. Each seeks to provide consumers with meals that are competitively priced, served in the same quick time frame while being convenience-packaged for either dining in or takeout. Automobile companies are engaged in monopolistic competition as well. You may have a range of vehicles available for different lifestyles at different price points, in a variety of options and colors, but there are only a few companies from which you can choose. Ford, GM, Toyota, Fiat-Chrysler, Honda, Hyundai, some European manufacturers and so on, are all competing to be your latest auto, but once you break vehicles down into budgets, types and classes, your options get considerably narrower. Pure or perfect competition is rarely seen in the economic world. A good place to find best-case examples of it is the agricultural commodities market or in gasoline sales. To be perfect competition, there are four criteria that need to be met. Each seller must sell the same sort of product. Take the oranges commodity. There are different varieties of oranges, but a mandarin orange is a mandarin orange; a navel orange is a navel orange. For instance, if someone wants to sell oranges, they must only have land, be able to plant orange trees and produce good-quality crops that the market will consider saleable. There is no stranglehold on the industry, and no one has the advantage over the next competitor. Today, the number of orange producers is nearly half what it was just a decade ago. Luckily for them, the U.

Chapter 4 : The Four Types of Market Structures - Quickonomics

Market structure refers to the nature and degree of competition in the market for goods and services. The structures of market both for goods market and service (factor) market are determined by the nature of competition prevailing in a particular market. Ordinarily, the term "market" refers to.

The concept of market structure is central to both economics and marketing. Both disciplines are concerned with strategic decision making. In decision-making analysis, market structure has an important role through its impact on the decision-making environment. The extent and characteristics of competition in the market affect choice behavior among the actors [Baumol, ; Yadav,]. The problem for economists and marketers is that a meaningful operational definition of market structure is elusive [See Horowitz, ; Belk, Each discipline takes a different methodological approach toward solving this problem, and each has its own strengths and limitations. Economics is concerned with broad socio-economic issues e. Marketing, on the other hand, is more concerned with the managerial aspects of market structure analysis. Each touches on the primary domain of the other; the distinction between economic and marketing market structure analysis is a matter of relative emphasis. This study is concerned with the contribution marketing market structure analysis MSA can make to economic MSA, and, more specifically, to the problem of market definition. Though also important, in this article the potential benefits of economic MSA to marketing are not investigated. Economic MSA In economics, markets are classified according to the structure of the industry serving the market. Industry structure is categorized on the basis of market structure variables which are believed to determine the extent and characteristics of competition. Those variables which have received the most attention are number of buyers and sellers, extent of product substitutability, costs, ease of entry and exit, and the extent of mutual interdependence [Baumol, ; Colton,]. In the traditional framework, these structural variables are distilled into the following taxonomy of market structures: These four market structures each represent an abstract generic characterization of a type of real market. Market structure is important in that it affects market outcomes through its impact on the motivations, opportunities and decisions of economic actors participating in the market. The goal of economic market structure analysis is to isolate these effects in an attempt to explain and predict market outcomes [McNulty ; Broaddus,]. MSA is concerned with the effects of competition upon economic behavior. It attempts to explain and predict market outcomes through the extent of market competition. A key element of economic MSA is product substitutability. Product substitutability is strategically linked to market definition, a foundation element of market structure analysis. Broaddus [], in his path-breaking research on the market structure of banking services, argued that "one cannot determine the structure of a market until the market under consideration is carefully defined" [This is a difficult task since market definition is complicated by consumer perceptions of product substitutability. Broaddus, like other researchers, found no satisfactory solution to this problem. Horowitz provides one of the classic statements on this: Because economists from Adam Smith forward, have with confidence and enthusiasm, although not necessarily with shared views, written about markets, it is plausible that they would have quite a bit to contribute to the resolution of the market-definition problem. Plausible but erroneous [Horowitz, , 5]. Today, it remains true that economics is better equipped to discuss markets i. Although much progress has been made regarding the latter, which is crucial to MSA. The strategic role of product substitutability and market definition in economic MSA is illustrated in Figure 1. Product substitutability is linked to market definition, which, in turn, is integral to market structure. Figure 1 also calls attention to the importance of market structure to competitive economic behavior. In attempting to determine market boundaries, economists use product cross elasticity measures [going back to the pioneering work of Smits,]. A market may be defined to include only a single good or a group of goods according to the following criteria: This approach works best when analyzing markets which approximate the market structure "end points" of perfect competition and monopoly. However, it is more challenging to identify the market boundaries of markets well within these end points. Of issue is what constitutes appropriate criteria for differentiating between "close" substitutes within a market and "distant" substitutes outside the market. Marketing MSA may be of some help in dealing with this issue. In

order to focus on the potential contribution of marketing MSA to economics, I have isolated the role of cross-elasticity in economic MSA. It provides a bridge, if you will, between the two disciplines. There is more to Economic MSA than cross-elasticity as a determinant of market definition. Yet, orthodox economic MSA is dominated by cross-elasticity analysis. The broader dimensions tend to be abstracted from as discussed below it. For those interested in the broader aspects of economic MSA, I suggest the following important works: Greer []--role of transportation costs and legal barriers as factors in determining market definition; Kirzner []--importance of selling costs; Besanko , Dranove and Stanley []--spatial analysis and cluster maps; Elzinga and Hogarty []--trade flows; Stigler and Sherwin []--price correlations; Baker and Bresnahan []--residual demand analysis; Schwartzman []--substitution gaps; Boyer []--market share elasticities; Heyne []--different levels of substitution; Lancaster []--different levels of substitution. These and other market structure studies by economists overlap with much of marketing MSA, but, because of the difference in focus between the two, each has taken a different tact. To investigate this, an MSA framework is developed which attempts to distill and synthesize some key aspects certainly not all of the marketing literature on MSA. Defining the market is the first and crucial stage in the analysis of competitive market relationships [Ganzach and Karashi, ; Arndt, ; Buzzel, ; Day et al. Marketers view market definition from three different perspectives: Under the substitutability criterion lower left element in Figure 2 , products are considered competitive if consumers perceive they may be substituted for some purpose s [Warshaw ; Sashi and Stern, ; Fraser and Bradford, ; Lattin and McAlister, ; Srivastava et al. The market is defined to include only products having common purposes. In this variant of marketing MSA, product purpose is the organizing theme for analyzing competitive relations among firms. However, overall, marketing MSA differs in two important aspects of market definition: This is illustrated by the different avenues of marketing MSA depicted in Figure 2, with the objective cross elasticity approach on the left side, the subjective on the right, and hybrids of the two in the middle. Further, marketers emphasize different levels dimensions of substitutability. They see products competing in ascending or descending product purpose domains [Guillinan,]. For example, a particular brand of toothpaste may compete with another brand at the "lowest" level of competition most narrowly defined set of purposes ; with other dental hygiene products e. This has strategic importance for marketing management. In this variant of marketing MSA right side of Figure 2 , product market definition depends upon the level of product substitutability. Each level of substitutability may yield a different market definition, which, in turn, may lead to a different market structure. For marketers, there is no "true" market definition and thus there is no true market structure "out there" [Lovelock, ; Dick and Basu, ; Srivastava et al. This is a key theme in marketing MSA. Alternatively, markets may be defined behaviorally left side of Figure 2. The behavioral approach is based on market impact [Garda, ; Murphy and Enis,], as measured by product cross elasticity [Shepard, ; Shocker et al. Here, the product itself, rather than product purpose, is the organizing theme for analyzing competition. Of interest are those products whose sales have been significantly affected by marketing strategies related to other products [Katabe and Duhan, ; Garda,]. Gaps or discontinuities in these effects form the basis for identifying the boundaries of the market i. The distinction between substitutability and market impact is useful for marketing MSA; however, in reality, the two are related. A product which shares similar or related purposes with other products i. Yet the two approaches may not provide the same insights. In the case of customers who are loyal to one of several products that have a common purpose, market impact measures of competition may conceal the potential for product substitutability among those products. Brand loyalty may hold firm within the existing range of competing product prices, but will likely collapse at some greater price differential [Dick and Basu, ; Slater and Narver,]. Marketers thus face a dilemma in their MSA: Hybrid approaches further underscore the notion that there is no "true" market structure [Hyman et al. In marketing MSA, market structure is relative to the fundamental approach used for defining the market--behavioral, judgmental, or a hybrid of the two. Hybrid methodology combines behavioral and judgmental market definition criteria, as well as other elements in subsequent stages of marketing MSA II and III in Figure 2, discussed below. Different integrations of these elements may yield different market structures. This is particularly true regarding the aggregation issue. In deriving the overall market structure, individual consumer market structures are aggregated [See Pacheo, ; Grover and Rao,]. There are two main

aggregation methodologies employed in marketing MSA: The aggregation issue is problematic. How does one meaningfully aggregate individual consumer choices, which, as a group, often reflect considerable diversity with respect to the defined product domain [Greenley, ; Powers and Trawick, ; Belk,]. The aggregate market structure may not be representative of individual structures. The overall market structure, at best, only provides an average of consumer diversity. Average measures tend to hide much information, and may even be misleading. This is a limitation of any MSA. Once individual consumer behavior has been aggregated and quantified Stage II , however imperfectly, the next step is to develop an operational representation of the aggregate structure Stage III. The goal is to represent inter-product competitiveness in a manner that effectively conveys its research and managerial implications [Elrod, ; Hyman et al. Two main representation approaches are used in marketing MSA--spatial and nonspatial. Spatial techniques tend to be associated with judgmental data since they are well suited for continuous dimensional market structures [Masaaki and Duhan,]. At the simplest level, spatial techniques portray i. A judgment must be made regarding distance between clusters as a determinant of market boundaries. Nonspatial representation is better suited for representing behavioral data because of their discrete, categorical properties. For example, cross-elasticity analysis is based on the actual behavior of consumers. Behavioral and judgmental data are not mutually exclusive, and may in fact provide important insights when combined [Miles et al. Thus, hybrids of spatial and nonspatial representations have been developed. A commonly used hybrid is an overlapping cluster map. Each cluster itself is nonspatial, but the clusters are displayed spatially.

Chapter 5 : Market structure - Wikipedia

By Sean Masaki Flynn. Part of Economics For Dummies Cheat Sheet. An industry consists of all firms making similar or identical products. An industry's market structure depends on the number of firms in the industry and how they compete.

Contact The Four Types of Market Structures There are quite a few different market structures that can characterize an economy. Namely perfect competition, monopolistic competition, oligopoly, and monopoly.

Perfect Competition Perfect competition describes a market structure, where a large number of small firms compete against each other. In this scenario, a single firm does not have any significant market power. The idea of perfect competition builds on a number of assumptions: This is an important aspect, because it is the only market structure that can theoretically result in a socially optimal level of output. If you are looking for more information on perfect competition, you can also check our post on perfect competition vs imperfect competition.

Monopolistic Competition Monopolistic competition also refers to a market structure, where a large number of small firms compete against each other. However, unlike in perfect competition, the firms in monopolistic competition sell similar, but slightly differentiated products. This gives them a certain degree of market power which allows them to charge higher prices within a certain range. Monopolistic competition builds on the following assumptions: Now, those assumptions are a bit closer to reality than the ones we looked at in perfect competition. An example of monopolistic competition is the market for cereals. Most of them probably taste slightly different, but at the end of the day, they are all breakfast cereals. This results in a state of limited competition. By doing so they can use their collective market power to drive up prices and earn more profit.

The oligopolistic market structure builds on the following assumptions: As a rule of thumb, we say that an oligopoly typically consists of about dominant firms. This market is dominated by three powerful companies: Microsoft, Sony, and Nintendo. This leaves all of them with a significant amount of market power.

Monopoly A monopoly refers to a market structure where a single firm controls the entire market. The following assumptions are made when we talk about monopolies: Therefore, they are often regulated by the government. That gives Monsanto an extremely high level of market power. In a Nutshell There are four basic types of market structures: Perfect competition describes a market structure, where a large number of small firms compete against each other with homogenous products. Meanwhile, monopolistic competition refers to a market structure, where a large number of small firms compete against each other with differentiated products. And last but not least a monopoly refers to a market structure where a single firm controls the entire market.

Chapter 6 : Alyssa's Thoughts on Economics: Comparing Market Structures

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Create a table that compares and contrasts the various elements of the four market structures. So, we will write about the concept of market and its role under the heading of introduction, for example: In general, the market could be defined as a place where there are many sellers and buyers of different products who are actively engaged in buying and selling acts. The level of the production of any commodity depends upon structure of its market. Possible outcomes of sales, revenues, profits and prices are planned under market structures. The firm demand curve of the industry demand curve is expected to depend on things such as number of sellers in the market and similarity of their products. There are many other aspects of the market structure that may influence behavior. To reduce the discussion to manageable size, economists have focused on a few theoretical market structures that are expected to represent a high proportion of the cases actually encountered in market society. In this proportion, there are four types of market structure: Perfect competition, Monopoly, Monopolistic competition and Oligopoly Mathur, Now, as per the directions, we will talk about the various structures of market. To assist you in right and effective manner, I am giving you an overview about the various structures and their features in the tabular form. This will provide an easiness to understand the various characteristics of the different market structures. This information will help you to understand the perfect market and how a firm can take advantages of perfect competition market. There is one price that prevails in the market all the firms sell the products at the prevailing price. Perfect competition is a market in which there are many firms selling identical products with no firm being large enough relative to the entire market so as to be able to influence the market price Mathur, The perfect competition can be defined as a competitive system in which large number of sellers produces homogeneous and identical products for the large number of buyers Perfectly Competition. Example of Firm or industry: The right example in the perfect competition is the FMCG industry. There are large number of buyers and seller in the FMCG sector or industry. Goods or services produced by the Industry: FMCG produces large number of frequently used consumer products like soaps, shampoos, cosmetics, toothpaste, tooth brush, detergents, and shaving products. Pharmaceuticals, electronic goods, packaged drinks are also

Chapter 7 : 4 Market Structures In Economics - Wall Street Survivor

Markets are defined as the exchange of specific goods and services between buyers and sellers for racedaydvl.coms are categorized into economic models according to the size of the businesses, the number of sellers of specific goods and services, their share of the market and the degree of competition.

A perfectly competitive market is one in which the number of buyers and sellers is very large, all engaged in buying and selling a homogeneous product without any artificial restrictions and possessing perfect knowledge of market at a time. In the words of A. The following are the conditions for the existence of perfect competition: The first condition is that the number of buyers and sellers must be so large that none of them individually is in a position to influence the price and output of the industry as a whole. The demand of individual buyer relative to the total demand is so small that he cannot influence the price of the product by his individual action. Similarly, the supply of an individual seller is so small a fraction of the total output that he cannot influence the price of the product by his action alone. In other words, the individual seller is unable to influence the price of the product by increasing or decreasing its supply. Rather, he adjusts his supply to the price of the product. Thus no buyer or seller can alter the price by his individual action. He has to accept the price for the product as fixed for the whole industry. The next condition is that the firms should be free to enter or leave the industry. It implies that whenever the industry is earning excess profits, attracted by these profits some new firms enter the industry. In case of loss being sustained by the industry, some firms leave it. Each firm produces and sells a homogeneous product so that no buyer has any preference for the product of any individual seller over others. This is only possible if units of the same product produced by different sellers are perfect substitutes. In other words, the cross elasticity of the products of sellers is infinite. No seller has an independent price policy. He cannot raise the price of his product. If he does so, his customers would leave him and buy the product from other sellers at the ruling lower price. The above two conditions between themselves make the average revenue curve of the individual seller or firm perfectly elastic, horizontal to the X-axis. It means that a firm can sell more or less at the ruling market price but cannot influence the price as the product is homogeneous and the number of sellers very large. The next condition is that there is complete openness in buying and selling of goods. Sellers are free to sell their goods to any buyers and the buyers are free to buy from any sellers. In other words, there is no discrimination on the part of buyers or sellers. There are no efforts on the part of the producers, the government and other agencies to control the supply, demand or price of the products. The movement of prices is unfettered. Every firm has only one goal of maximising its profits. Another requirement of perfect competition is the perfect mobility of goods and factors between industries. Goods are free to move to those places where they can fetch the highest price. Factors can also move from a low-paid to a high-paid industry. This condition implies a close contact between buyers and sellers. Buyers and sellers possess complete knowledge about the prices at which goods are being bought and sold, and of the prices at which others are prepared to buy and sell. They have also perfect knowledge of the place where the transactions are being carried on. Such perfect knowledge of market conditions forces the sellers to sell their product at the prevailing market price and the buyers to buy at that price. If transport costs are added to the price of the product, even a homogeneous commodity will have different prices depending upon transport costs from the place of supply. Under perfect competition, the costs of advertising, sales-promotion, etc. Perfect Competition vs Pure Competition: Perfect competition is often distinguished from pure competition, but they differ only in degree. The first five conditions relate to pure competition while the remaining four conditions are also required for the existence of perfect competition. That is why, Chamberlin says that perfect competition is a rare phenomenon. A hypothetical model of a perfectly competitive industry provides the basis for appraising the actual working of economic institutions and organisations in any economy. Monopoly is a market situation in which there is only one seller of a product with barriers to entry of others. The product has no close substitutes. The cross elasticity of demand with every other product is very low. This means that no other firms produce a similar product. The demand curve for his product is, therefore, relatively stable and slopes downward to the right, given the tastes, and incomes of his

customers. It means that more of the product can be sold at a lower price than at a higher price. He is a price-maker who can set the price to his maximum advantage. However, it does not mean that he can set both price and output. He can do either of the two things. His price is determined by his demand curve, once he selects his output level. Or, once he sets the price for his product, his output is determined by what consumers will take at that price. In any situation, the ultimate aim of the monopolist is to have maximum profits. The main features of monopoly are as follows: Under monopoly a firm itself is an industry. A monopolist has full control on the supply of a product. Hence, under monopoly, the cross elasticity of demand for a monopoly product with some other good is very low. There are restrictions on the entry of other firms in the area of monopoly product. A monopolist can influence the price of a product. He is a price-maker, not a price-taker. Pure monopoly is not found in the real world. Monopolist cannot determine both the price and quantity of a product simultaneously. That is why, a monopolist can increase his sales only by decreasing the price of his product and thereby maximise his profit. The marginal revenue curve of a monopolist is below the average revenue curve and it falls faster than the average revenue curve. This is because a monopolist has to cut down the price of his product to sell an additional unit. Duopoly is a special case of the theory of oligopoly in which there are only two sellers. Both the sellers are completely independent and no agreement exists between them. A seller may, however, assume that his rival is unaffected by what he does, in that case he takes only his own direct influence on the price. If, on the other hand, each seller takes into account the effect of his policy on that of his rival and the reaction of the rival on himself again, then he considers both the direct and the indirect influences upon the price. Thus the duopoly problem can be considered as either ignoring mutual dependence or recognising it. An oligopoly industry produces either a homogeneous product or heterogeneous products. Pure oligopoly is found primarily among producers of such industrial products as aluminium, cement, copper, steel, zinc, etc. Imperfect oligopoly is found among producers of such consumer goods as automobiles, cigarettes, soaps and detergents, TVs, rubber tyres, refrigerators, typewriters, etc. There is recognised interdependence among the sellers in the oligopolistic market. Each oligopolist firm knows that changes in its price, advertising, product characteristics, etc. When the sellers are a few, each produces a considerable fraction of the total output of the industry and can have a noticeable effect on market conditions. He can reduce or increase the price for the whole oligopolist market by selling more quantity or less and affect the profits of the other sellers. It implies that each seller is aware of the price-moves of the other sellers and their impact on his profit and of the influence of his price-move on the actions of rivals. Thus there is complete interdependence among the sellers with regard to their price-output policies. Each seller has direct and ascertainable influences upon every other seller in the industry. Thus, every move by one seller leads to counter-moves by the others. It is for this reason that oligopolist firms spend much on advertisement and customer services. As pointed out by Prof. If, on the other hand, one oligopolist advertises his product, others have to follow him to keep up their sales. Since under oligopoly, there are a few sellers, a move by one seller immediately affects the rivals. So each seller is always on the alert and keeps a close watch over the moves of its rivals in order to have a counter-move. This is true competition. As there is keen competition in an oligopolistic industry, there are no barriers to entry into or exit from it. However, in the long run, there are some types of barriers to entry which tend to restraint new firms from entering the industry. When entry is restricted or blocked by such natural and artificial barriers, the oligopolistic industry can earn long-run super normal profits. Another feature of oligopoly market is the lack of uniformity in the size of firms. Firms differ considerably in size. Some may be small, others very large. Such a situation is asymmetrical. This is very common in the American economy. A symmetrical situation with firms of a uniform size is rare. It is not easy to trace the demand curve for the product of an oligopolist. Since under oligopoly the exact behaviour pattern of a producer cannot be ascertained with certainty, his demand curve cannot be drawn accurately, and with definiteness. The chain of action reaction as a result of an initial change in price or output, is all a guess-work.

Chapter 8 : What Are the Four Market Models in Economics? | Bizfluent

There are four basic market structures: perfect competition, monopoly, monopolistic competition and oligopoly. In a

perfect competition market structure several firms are present who all produce identical products and are all sold at market price.

Chapter 9 : Market Structures Chart

Economics Eastern University Professor Van Weigel.