Short Notes on Market Structures

Market Structures

Perfect Competition

- Definition: Market with complete absence of rivalry among firms.
- Key Features:
  - Large numbers of buyers & sellers.
  - Homogeneous products.
  - Free entry and exit.
  - Perfect knowledge and resource mobility.
- Price Determination: Firms are price takers. Equilibrium occurs at MC=MR=AR=P.

Monopoly
- Definition: Single firm dominates the market.
- Key Features:
  - A single seller.
  - No close substitutes.
  - Barriers to entry.
  - Full control over price.
- Pricing: Profits maximized when MC=MR.
- Types: Pure monopoly, bilateral monopoly, discriminating monopoly.

Monopolistic Competition
- Definition: Many firms sell differentiated products.
- Key Features:
  - Product differentiation (heterogeneous products).
  - Non-price competition (e.g., advertisements).
  - Partial control over price.
  - Selling costs influence consumer preferences.
- Pricing: Downward sloping demand curve, equilibrium at MC=MR.

Oligopoly
- Definition: Market dominated by a few firms with significant interdependence.
- Key Features:
  - Few firms with either homogeneous or differentiated products.
  - Difficult market entry.
  - Indeterminate demand curve due to strategic interactions.
- Types: Collusive (e.g., cartels) and non-collusive oligopolies.
- Pricing: Explained using the kinked demand curve theory.

Break-Even Analysis
- Definition: Determines the level of sales needed to cover total costs.
- Key Components:
  - Fixed costs (e.g., rents, salaries).
  - Variable costs (e.g., raw materials).
- Uses: Pricing strategy, new product launches, business model changes.
- Formula: Break-even point = Fixed Cost / (Price per Unit - Variable Cost).

Example: If fixed costs are $100,000, variable cost per unit is $2, and selling price is $12, break-even sales = 10,000 units.