COMPETITION

- refers to the rivalry between firms, individuals, or nations striving to acquire a larger share of the market or resources.

- it is a fundamental concept that influences the dynamics of supply and demand, shapes prices, drives innovation, and ultimately impacts consumer welfare.

3 - Types of Market Competition

1. Perfect Competition
2. Monopoly
3. Monopolistic Competition

Perfect competition -is an idealized market structure characterized by several distinct features.

6 - Key Features of Product Competition

1. Many Buyers and Sellers - Leads to a situation where firms are price takers.

2. Homogeneous Products - consumers received no difference between products sold by different seller.

3. Free Entry and Exit - profits are driven to zero due to competition in the long run.

4. Perfect Information - no asymmetry in information, so everyone makes informed decisions.

5. No Externalities - there is no spill over effects that impact third parties (negative or positive).

6. Profit Maximization - Firms aims to maximize their profit by producing where Marginal Cost (MC) Equals to Marginal Revenue (MR).

3 - Implications for Economics

1. Price Taking

2. Normal Profits in the Long Run

3. Efficiency

Monopoly - a market in which there are many buyers but only one seller or has an exclusive control or possession of something.

- a market structure characterized by a single seller or producer that dominates the entire market for a particular good or service, with no close substitutes available.

8 - Key Aspects of a Monopoly

1. Single Seller - there is only one firm or producer that controls the entire supply of a particular good or service.

2. No Close Substitutes - product or service offered by the monopolist has no close substitute.

3. Price Maker - the firm has enough control over the supply of the good or service to set prices.

8 - Key Aspects of a Monopoly

4. <u>High Barriers Entry</u> - it prevent other firms form entering the market and competing.

4 - Classification of Barriers

1. Legal Barriers
2. Control of Key Resources
3. Economies of Scale
4. Price Maker

8 - Key Aspects of a Monopoly

5. Profit Maximization - monopolist maximizes profit by producing at a quantity (MR) equals it (MC).

6. Market Power and Consumer Inpact - monopolies can lead to several inefficiencies in the market.

4 - Inefficiencies in the Market

1. Higher Prices
2. Lower Output
3. Allocative Inefficiency
4. Potential for Exploitation

7. Natural Monopoly - high infrastructure costs and economies of scales make it inefficient for more that one firm to operate.

8. Regulation - monopolies can abuse their market power and often subject to government regulations.

Monopolistic Competition - a market in which many firms offer products or services that are similar but not identical.

- they can differentiate their products, but there are many competitors, so no firm has total control over the market.

5 - Key Characteristics of Monopolistic Competition

1. Many Seller - the market consists of a large number of firms and each are holding a small market share.

2. Product Differentiation - firms offers a product that is distinct in some way - whether by *quality, brand, style, features, or location*.

5 - Key Characteristics of Monopolistic Competition

3. Free Entry and Exit - firms can freely entry and exit in the long run that keeps their profit in check.

4. Some Control Over Prices - if a firms sets a price too high, consumers can switch to another similar product.

5. Non-Price Competition - firms often engage in non-price competition to attract customers.

Short - Run vs Long - Run Equilibrium for Monopolistic Competition

<u>Short-Run</u> - in monopolistic competition the firms demand curve is downward - slopping, allowing it to change a price higher than marginal cost (MC) and earn profits.

<u>Long-Run</u> - economic profits tend to be zero.

So, this equilibrium is characterized by...

a. <u>Price Equals Average Total Cost</u>
   (P=ATC) firms earn zero economic profit (normal profit)

b. <u>Excess Capacity</u> - Firms do not product at the lowest point on their average total cost curve.

EFFICIENCY

1. Allocative Efficiency - monopolistic competition is not allocating efficient because price (P) is greater than marginal cost (MC)

2. Productive Efficiency - monopolistic competition is not productively efficient because firms do not produce at the lowest point on their average total cost curve.

Example of Monopolistic Competition:

1. Retail Clothing Store (e.g., ZARA, H&M, Uniqlo)
2. Restaurants
3. Hair Salons

Advantages of Monopolistic Competition

1. Product Variety
2. Innovation
3. Consumer Choice

Disadvantages of Monopolistic Competition

1. Inefficiency
2. Excessive Advertising

THANK YOU...