

# Market structure

# Market structure

**Market structure:** the characteristics of an industry that affect the conduct of firms in that market.

- Characteristics that determine the market structure:
  - ❑ the number of firms
  - ❑ the degree of product differentiation
  - ❑ the ease of (or barriers to) entry into the market.
  - ❑ availability of information

# Key concepts

- A large market share means
  - ❑ *a bigger influence on the market.*
  - ❑ *= a bigger **monopoly/market power***
  - ❑ *likely to be a **price maker***
- A small market share means
  - ❑ *a smaller influence on the market.*
  - ❑ *= little **monopoly/market power***
  - ❑ *a **price taker***

**Market share:** the percentage of an industry's sales accounted for by one or a few firms.

**Price maker:** a firm that has the power to set the price in the market.

**Price taker:** a firm that has to accept the price set by the market supply and demand.

# The number of firms

- How does the number of firms relate to the market share?
  - if there are many firms in an industry
    - *each has a small market share*
    - *little influence (market power) on the market*
  - if there are only a few firms in an industry
    - *they tend to have more market share*
    - *more influence (market power) on the market*
  - if there is only one firm in an industry
    - *much more influence on the market*
    - *usually is controlledn by the government*

# The degree of product differentiation

- The more firms differentiate their products, the greater their ability to set price. (cannot easily find close substitute goods)

**Product differentiation:**  
how firms make their goods and services appear different from other firms' products.

# Ease of entry into the market

- Barriers to entry include:
  - ❑ *the cost of setting up the business*
  - ❑ *technology*
  - ❑ *government regulation (requirement of license, patent, and copyright)*
  - ❑ *significant economies of scale*
- The easier it is for new firms to come into the market, the less power existing firms have to set prices.

**Barriers to entry:** factors that make it difficult for new firms to come into a market.

# Availability of information

- If buyers and sellers in highly competitive markets are assumed to have plenty of reliable information about the products of all firms (including price, quality, function...), the firms tend to have less monopoly power.
- This is because consumers can shop around easily to find the firms selling the best products at the lowest price, so that firms do not have the power to set prices.

# Review Q

1. List three reasons for firms' experiencing economies of scale (3')
2. List three reasons for firms' experiencing diseconomies of scale (3')
3. Draw a diagram to show economies of scale and diseconomies of scale (3')
4. Define "market structure"
5. List three examples of barriers to entry (3')
6. Explain the meaning of "product differentiation"



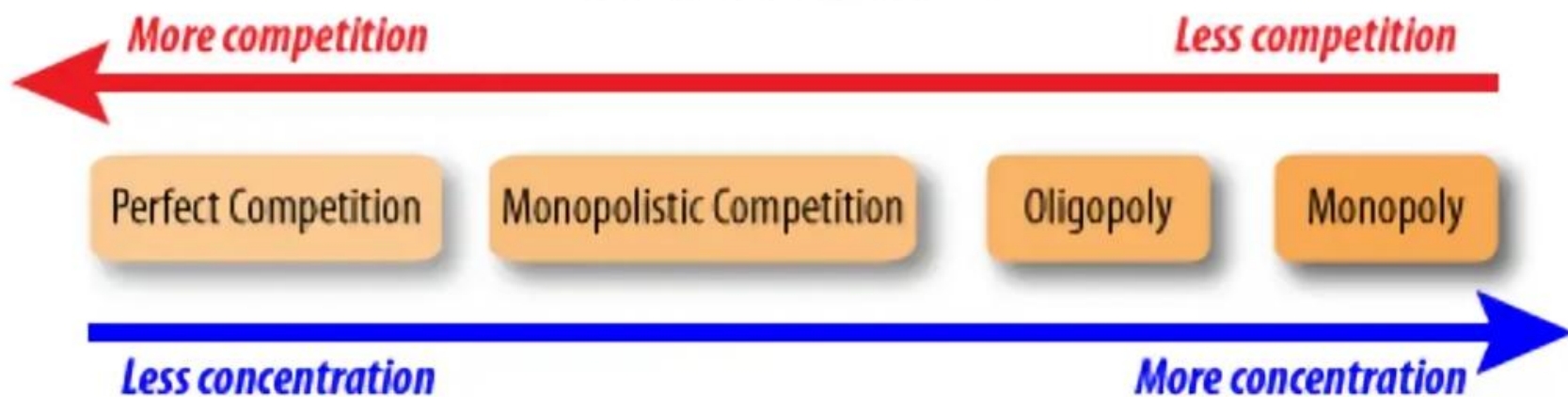
# Market structure

- According to the characteristics that determine the market structure:
  - ❑ the number of firms
  - ❑ the degree of product differentiation
  - ❑ the ease of (or barriers to) entry into the market.
  - ❑ the availability of information
- Market structure is classified into four types:  
(read the material, identify the four market structures and their features, and also find out some real world examples for each of the market structure)

# Using real life examples, explain the differences between the different market structures

- There are four types of market structures. A monopoly is where one firm dominates the market, it is characterised by high entry and exit barriers, high sunk costs and a possibility for supernormal profits. An example of this would be Google who is most known for search engines.
- An oligopoly is where there are a few firms that dominate the market. It is characterised by high entry and exit barriers and collusion. There are a few key players in the industry and due to the high sunk costs, there are hardly ever any new companies as the entry barriers are high.
- Monopolistic competition is where there are a lot of firms with differentiated products and there is freedom of entry and exit into the market. There is also a possibility for normal profits in the long run. Although there are many different producers, each one has a unique characteristic that differentiates it from the others thus allowing producers to set prices.
- Perfect competition is where there is freedom of entry and exit, the products sold are homogenous so prices cannot be set too high as consumers will go for the lower priced products.

## Market Structures



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# Market Structures

**Perfect competition:** a market with a large number of buyers and sellers, where products are identical, there is perfect information and there are no barriers to entry into or exit from the industry.

**Monopolistic competition:** a market with a large number of small firms, selling similar but not identical products, and with few barriers to entry into and exit from the industry.

**Oligopoly:** a market where a small number of firms control the supply of a good or service.

**Monopoly:** a market where one firm controls the supply of a good or service.

# Market Structures

- Examples for different market structures:

- Perfect competition

- *fruit sellers, foreign exchange market*

- Monopolistic competition

- *hairdressers, fashion clothes*

- Oligopoly

- *mobile communication carriers, airplane companies*

- Monopoly

- *PetroChina, State Grid (state owned companies)*

# Competitive Markets

- What is a competitive market?
  - ⑩ **Competitive market:** where there are many buyers and sellers, good market information and ease of entry.
  - ⑩ A perfectly competitive market is an extreme example of a competitive market.
  - ⑩ Monopolistic competition is also a competitive market.

# Competitive Markets

- Characteristics of competitive markets:
  - ❑ *many buyers and sellers*
  - ❑ *products are rarely differentiated*
  - ❑ *there are less barriers to entry*
  - ❑ *high availability to the information of the market*

# Competitive market

- Other characteristics of a competitive market:
- In a competitive market, the demand for each firm's product tends to be more elastic or inelastic? why?
  - Elastic
  - Because it is easy to find substitutes



# Competitive market

- Other characteristics of a competitive market:
- In a competitive market, producers tend to make higher or lower profits? Why?
  - lower
  - Because of the large number of rival firms in the industry, and the good access to information, each firm will be forced to keep price low to attract consumers. This means each firm will make a low profit.

# Competition

- A competitive market also means firms are facing fierce competition.
- Ways of competition:
  - price competition
  - non-price competition

## ACTIVITY 2

Think of all the different ways that producers try to make you part with your money. Can you break them down into price and non-price competition (i.e. factors not relating to the price of the product/service)?

# Non-price competition

- *Better quality of customer service* including guaranteed delivery times for consumers and good after-sales service.
- *Longer opening hours* for retailers, 24 hour online customer support.
- *Discounts on product upgrades* when they become available in the market.
- *Advertising*: to increase brand recognition and brand loyalty.

# **The economic impact of competition**

- **How do competitions impact consumers, producers and workers respectively?**  
(5-min discussion)

# The economic impact of competition

- **Consumers**

- Consumers usually benefit from high levels of competition because consumers typically have a larger choice of reasonable quality goods and services at low prices. This will increase their standard of living.
- However, because producers in competitive markets are small, these producers will not benefit from economies of scale, meaning that in some cases prices could actually be higher than in non-competitive markets. Producers may also cut costs in order to achieve low prices, which may lead to reduced quality.

# The economic impact of competition

- **Producers**

- Firms in a competitive market need to be as efficient as possible to be competitive and remain in the market. This means that they need to cut costs to keep their prices low and attract customers. This is likely to lead to low profits for firms.
- Firms are less likely to benefit from economies of scale, since a competitive market typically has many small firms.
- Low profit will also mean limited funds to re-invest in the business, meaning they are unlikely to be able to expand or develop new products.

# The economic impact of competition

- **Workers**

- Workers in a competitive market are often made to work as efficiently as possible, with high productivity. This is because their employers want to minimize costs of production and ensure consumers can be charged competitive prices. This may mean that workers are paid low wages and that working conditions are basic.



# Non-competitive markets

- Non-competitive markets include:
  - ❑ Monopoly: one firm dominant the market.
  - ❑ Oligopoly: only a small numbre of firms in the market.
- Features of non-competitive markets:
  - ❑ small number of firms
  - ❑ high barriers to entry
  - ❑ high level of product differentiation
  - ❑ poor access to information

# Non-competitive markets

- Other features of non-competitive markets:

## **Price maker or price taker?**

### **Price maker**

- ❑ Since each firm controls a large share of the supply in the market, each firm has a large degree of market power, especially in monopoly. Firms are therefore said to be price makers.
- ❑ Sometimes producers in an oligopoly work together and agree to charge the same prices as each other, effectively behaving as a monopoly. This is known as collusion.

# Non-competitive markets

- Other features of non-competitive markets:

## **Higher or lower profit compared with competitive markets?**

### **High profit**

- ❑ Due to the lack of competition, firms in non-competitive markets can charge higher prices than in competitive markets. Also, because firms in non-competitive markets tend to be large, they may benefit from economies of scale, which allows them reduce their costs of production.
- ❑ The combination of high prices and low costs means profits are higher.

# Non-competitive markets

- Other features of non-competitive markets:

## **Compete on price or non-price factors?**

### **Compete on non-price factors**

- ❑ Non-competitive market does not mean there is no competition.
- ❑ Firms in non-competitive markets do not compete on price as much, or as often, as in competitive markets. This is because price competition may trigger “price war” between rival firms, where every firm ends up losing profit.
- ❑ Instead, they usually compete on non-price factors such as branding, design, product quality and high level of customer service.

# Impact of non-competitive market

- What are the possible impact of non-competitive market on consumers, producers and workers?  
(5-min discussion)

# Impact of non-competitive market

## Consumers

- ❑ The living standards of consumers may be reduced as a result of low levels of competition. Because firms with a monopoly do not have to provide consumers with low price or high quality.
- ❑ However, because each firm is large, they can benefit from economies of scale, meaning that prices could actually be lower than in competitive markets.
- ❑ Furthermore, firms may engage in non-price competition, so consumers may receive higher quality goods and services and better customer services.

# Impact of non-competitive market

## Producers

- ❑ In non-competitive markets, firms do not need to cut their costs in order to be able to attract customers with low prices. This means that they do not need to be efficient, because they can already make high profits by charging a high price.
- ❑ However, in oligopolies firms may need to invest some of their profits to develop new products to give them an advantage over rival firms. Dominant firms may be able to pressure other producers, such as suppliers of raw material, into accepting low prices for order.

# Impact of non-competitive market

## Workers

- ❑ Dominant firms may have sufficient power on the labour market that they are able to force workers to accept lower wages than in competitive markets. This is especially true if they are the main employer of labour in a particular occupation or region.



# Labour Market

# Why do people work?

## ACTIVITY 3.10

### Just the job

#### Restaurant and Bar Manager

To lead, manage and operate a restaurant and bar with cutting edge cocktails and global cuisine. 50 hours per week. Late evenings and shift-working required.

#### Hair stylist

To wash and cut hair.  
Part-time. Mornings only.

#### Labourer Wanted

General labouring and odd jobs. Hours 8am – 5pm.  
Monday to Friday. Must be willing to travel.

#### Warehouse staff

You could be earning instead of looking!  
WAREHOUSE STAFF – We've found the way to make temporary assignments more interesting for YOU.

You'll have the opportunity to select from a variety of assignments locally or in city locations offering excellent rates of pay, holiday pay and other benefits.

If you're available for a week or more we can put you to work.

#### Economist

An international oil company is looking for an Economist to join their Business Environment Division, initially on a 2-year contract.

The successful candidate for this unusual opportunity to experience the oil industry at first hand is likely to have a degree and postgraduate degree in economics, a strong quantitative background including familiarity with PCs and a high level of analytical, written and oral communication skills.

The post can be filled at various levels of previous experience, with a remuneration package to match, but preference will be given to those whose understanding of the economy within a global environment can be readily acknowledged.

The planning team is responsible for analysing and identifying economic trends and developments, in particular those relating to energy demand and supply.

#### Fruit picker wanted

for busy farm for three months during summer. Must be prepared to work long hours and outdoors in all weathers.

#### Security guard required

We require a security person for the reception area at our Group Head Office.

The hours of work involved are Monday to Friday 10pm to 7am and duties include dealing with all overnight visitors and deliveries to the building, whilst maintaining an effective security presence.

Applications are invited from mature persons who are confident and alert, and of a smart appearance.

We offer a good rate of pay for this responsible position.

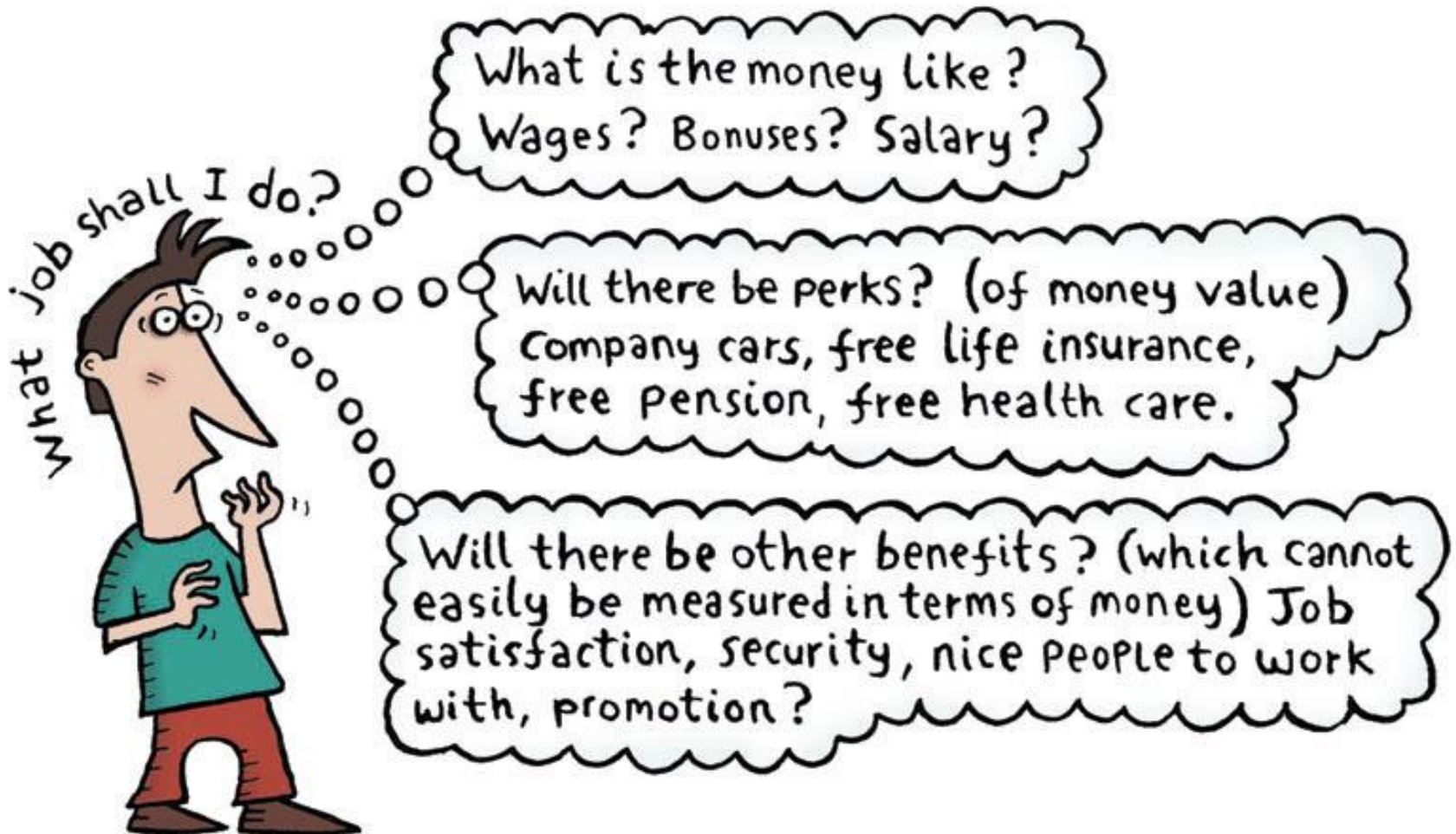
#### Book Shop Assistant

A great opportunity for a bright, enthusiastic person interested in literature, art, music and foreign languages to gain valuable experience in bookselling and publishing. 5 days per week. 10 am till 7 pm

In groups, look at the job advertisements above.

- 1 For each job, discuss with your group what you think the monthly wage or annual salary for the job is likely to be.
- 2 Which job do you think offers the highest wage or salary, and which one offers the lowest? Why do you think this is the case?
- 3 Which job do you think is likely to get the most applicants and why? Try to think of reasons other than just the wage or salary.
- 4 Which of the jobs above would you most like to do and least like to do, and why? Again, try to think of reasons other than the wage or salary the job may offer.
- 5 Which job would you most like to do when you leave school or college, and why? Try to find out what the job currently offers in terms of pay and other monetary and non-monetary benefits. Are you still attracted to this job?

# Why do people work?



# Why do people work?

- Most people will supply their labour to firms **to earn an income**.
- Firms pay **wages** to workers to supply their labour to produce goods and services.
- Different types of **wage rate** for the job:
  - **time rate** per hour worked per employee
  - **piece rate** per unit produced per employee
  - **performance-related pay**: commission on sales, annual bonuses, etc.



# Why do people work?

- Other than the wage, what other factors may attract people to work?

Non-wage factors include:

- |                                 |                                  |   |
|---------------------------------|----------------------------------|---|
| ▶ hours of work                 | ▶ quality of working environment | ▶ pension entitlement                                   |
| ▶ holiday entitlement           | ▶ how secure the job is          | ▶ opportunities for promotion                           |
| ▶ promotion prospects           | ▶ how satisfying the work is     | ▶ interesting and varie tasks                           |
| ▶ flexible working arrangements | ▶ fringe benefits                | ▶ distance or time it takes to travel to and from work. |
| ▶ qualifications required       | ▶ training opportunities         |   |

- All the wage and non-wage factors that affect the attractiveness of a particular job or occupation are called its **net advantages**



# What is the labour market?

- Labour market is a factor market or a product market?
  - factor market
- The **Labour market** consist of the supply of labour from workers and the demand for labour from firms that wish to hire workers.
- The role of the labour market is to bring together firms that need to recruit workers and workers who wish to supply labour in a particular occupation.

# The demand for labour

- **The demand of labour** to a particular occupation will depend on how many people the firms are willing and able to hire.
- The demand for labour is a **derived demand** because firms want labour to produce goods and services that consumers want and are willing to pay for.

***Derived demand:*** is where the demand for a factor of production results from the demand for the product it makes.

# Factors affecting the demand of labour

## **Wage rates**

- A reduction in the wage rate means that firms can afford to employ workers more cheaply, leading to an extension along the demand curve for labour.

## **Demand for the product**

- If there is an increase in demand for the product that labour makes, then there will be an increase in derived demand for workers who can produce it.



# Factors affecting the demand of labour

- **Productivity of labour**

- The more efficient an individual is, the more likely they are to be employed because they are more valuable to employers. However, as workers become more and more efficient, fewer people will be needed to perform a task.

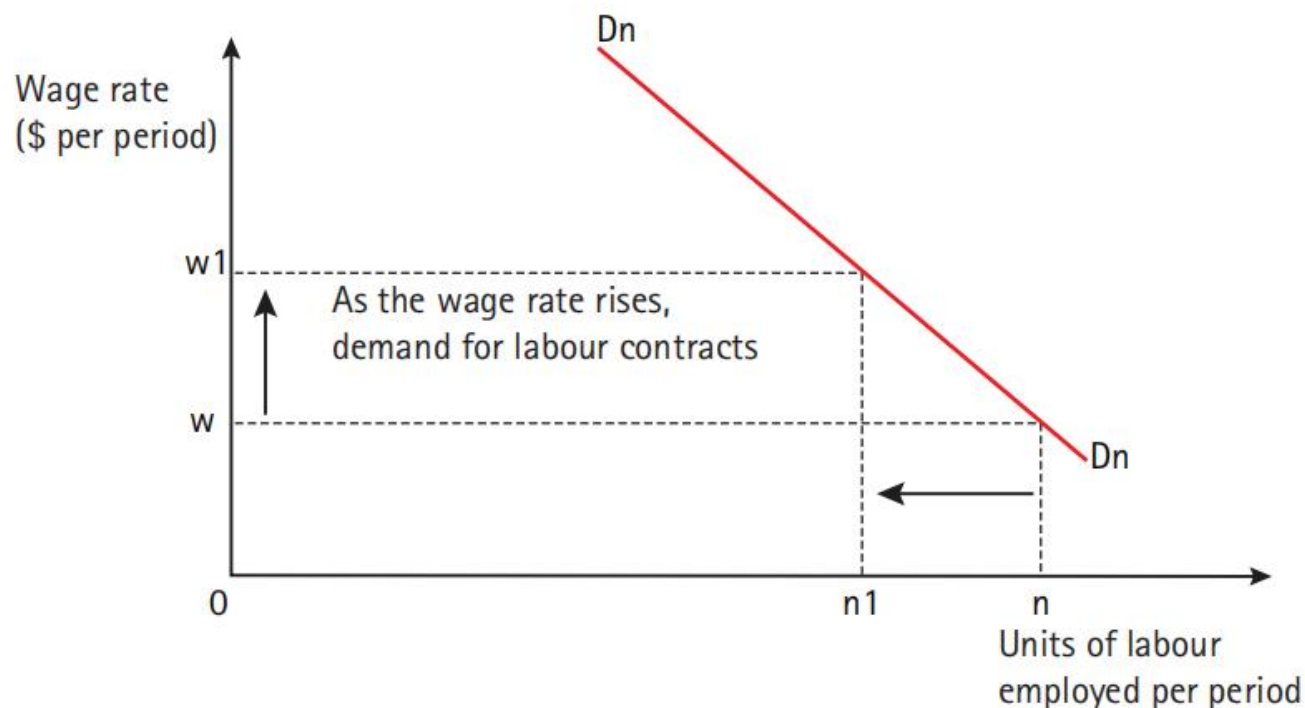
- **Price of substitute factors of production**

- If other factors of production used to produce goods and services become cheaper, such as capital, then this will lead to a decrease in the demand for labour.

# The demand of labour

- Draw a diagram to show the demand of labour.

▼ The demand for labour with specific occupational skills



# The supply of labour

- **The supply of labour** consists of those people of working age who are willing and able to work at a particular occupation.

# Factors affecting the supply of labour

- **Wage rate**

- Since wages are the reward for labour, an increase in the wage rate will make work more attractive. consequently, the quantity of workers willing to work will increase, leading to an extension along the supply curve for labour.

- **Other non-monetary benefits**

- Individual workers may be attracted to a job by factors other than pay. These non-monetary factors include the status of the job, working conditions, and holiday allowances. If these factors improve for a particular job, the supply of labour will increase.

# The supply of labour

- **Size of the working population**

- If there is an increase in the number of people of working age, the potential supply of labour will increase.
- If the population is aging (i.e. the proportion of older people is growing and the proportion of younger people is falling) there is a smaller supply of labour.

- **Barriers to entry**

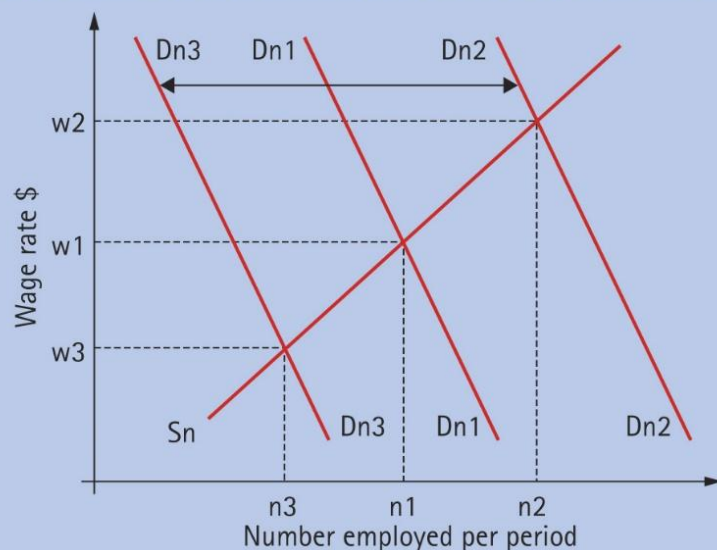
- These could include any factors that make it difficult to enter the market for a particular job, such as the requirement for educational qualifications, or to join a trade union, or any form of discrimination by an employer.

# How are wages determined?

- In a free market economy prices are determined by the interaction of demand and supply.
- The equilibrium wage in a labour market is determined by?
  - the demand and supply for labour.

# How are wages determined?

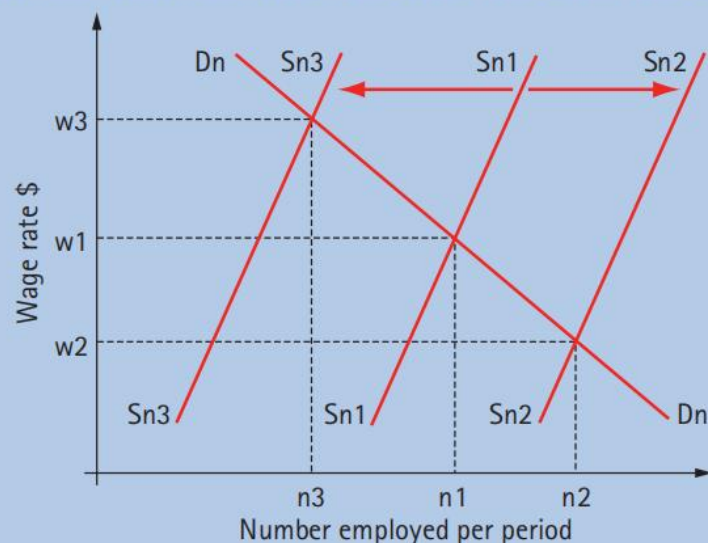
## If the demand for labour changes



If the demand for labour rises from  $D_{n1}$  to  $D_{n2}$ , the wage rate rises from  $w_1$  to  $w_2$  and employment increases from  $n_1$  to  $n_2$ .

If demand falls from  $D_{n1}$  to  $D_{n3}$ , the wage rate falls from  $w_1$  to  $w_3$  and employment falls to  $n_3$ .

## If the supply of labour changes



If the supply of labour rises from  $S_{n1}$  to  $S_{n2}$ , the wage rate falls from  $w_1$  to  $w_2$  and more people are employed at  $n_2$ .

If supply falls from  $S_{n1}$  to  $S_{n3}$ , the wage rate rises from  $w_1$  to  $w_3$  and employment falls.

# Wage differentials

- Wage differentials are the differences in wages due to differences in the demand and supply for different occupations or groups of workers:
  - ❑ If demand for a particular occupation or group of workers is high, or supply is low, wages will tend to be high or low?
    - ✓ high
  - ❑ If demand for a particular occupation or group of workers is low, or supply is high, wages will tend to be high or low?
    - ✓ low

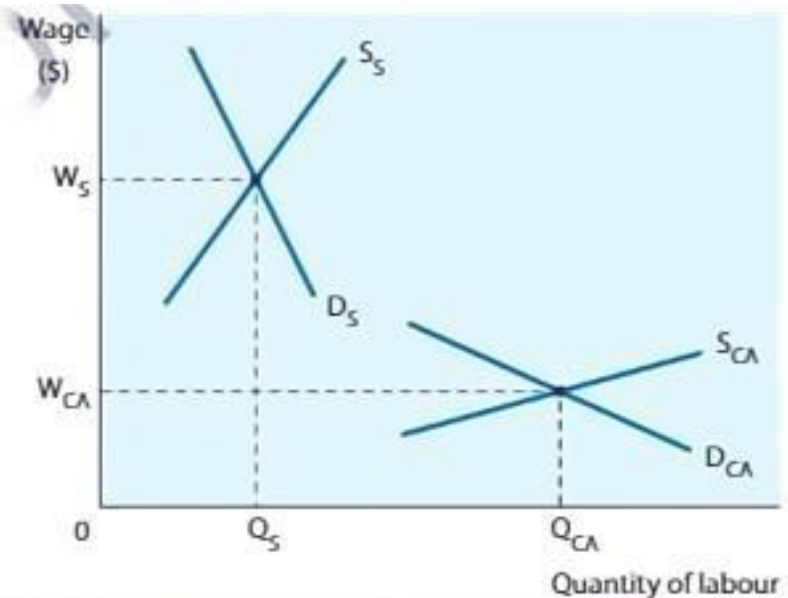


# Wage differentials

- Wage differentials can also be caused by differences in the elasticity of demand and supply for labour.
  - If it is difficult for an employer to replace a worker following a rise in wages, then demand for labour will be relatively inelastic and wages tend to be high.
  - If a wage rise does not cause many workers to join the occupation, then supply will be relatively inelastic, again leading to high wages.

- The demand for surgeons ( $D_S$ ) is higher and more inelastic than the demand for care assistants ( $D_{CA}$ ).
- The supply for surgeons ( $S_S$ ) is lower and more inelastic than the demand for care assistants ( $S_{CA}$ ).
- These factors lead to the surgeon's wage being higher than the care assistant's

## Why surgeon's wage is higher than care assistant's?



▲ Figure 5.10: Using a demand and supply diagram to show the wage differential between surgeons and care assistants

# What explains wage differentials?

- Some workers are paid more than others because they:
  - are more highly skilled than others
  - are much in demand by employers
  - are more productive, and add more to output and revenue than others
  - are in dangerous jobs (e.g. soldiers, firefighters)
  - work unsociable hours
  - have more information than other workers about where the best paid jobs are
  - are more able than others to move location and/or change their occupation to increase their pay

# Job-matching activity

1. Divide students into two groups - Workers and Employers.
2. Employers will sit behind tables which displays the 10 job vacancy posters.
3. Workers will mill around the room reviewing the job descriptions.
4. When Workers identify a potential match based on their sticker attributes, they should approach the Employers' table.
5. Workers will present their qualifications and interest to the Employer representatives. Employers evaluate the fit.
6. Workers should persuade and negotiate with Employers to try to secure a role, highlighting relevant skills and experience.

# Job-matching activity

7. Employers may make notes on candidates but only select one applicant per job posting initially.
8. If not selected, Workers continue searching until all have presented or roles are filled.
9. Once complete, totals can be shared. Employers may have leftover jobs or Workers leftover.
10. Discussion follows about realism of match process and imperfect labor market factors at play.
11. Workers and Employers provide perspective on challenges faced and decisions made

**Thank you for  
your attention!**