Module 3
Market Structure

Syllabus

Perfect and imperfect competition – monopoly, regulation of monopoly, monopolistic completion (features and equilibrium of a firm) – oligopoly – Kinked demand curve – Collusive oligopoly (meaning)

– Non-price competition

– Product pricing – Cost plus pricing – Target return pricing

– Penetration pricing – Predatory pricing – Going rate pricing – Price skimming.

Market Structures

- **Market** is a term which is commonly used for a particular place or locality where goods are bought and sold.- group of consumers and producers that interact toexchange a good or service.
- **Market structure** refers to the competitive environment within which a firm operates.
- According to Prof. Samuelson, “A market is a mechanism by which buyers and sellers interact to determine the price and quantity of a good or service.”

Market Structures- Classification

Based on competition, the market structure has been classified into two broad categories:

1. **Perfectly competitive.** (Perfect Competition)

2. **Imperfectly competitive**. (Monopoly, Monopolistic competition and Oligopoly)

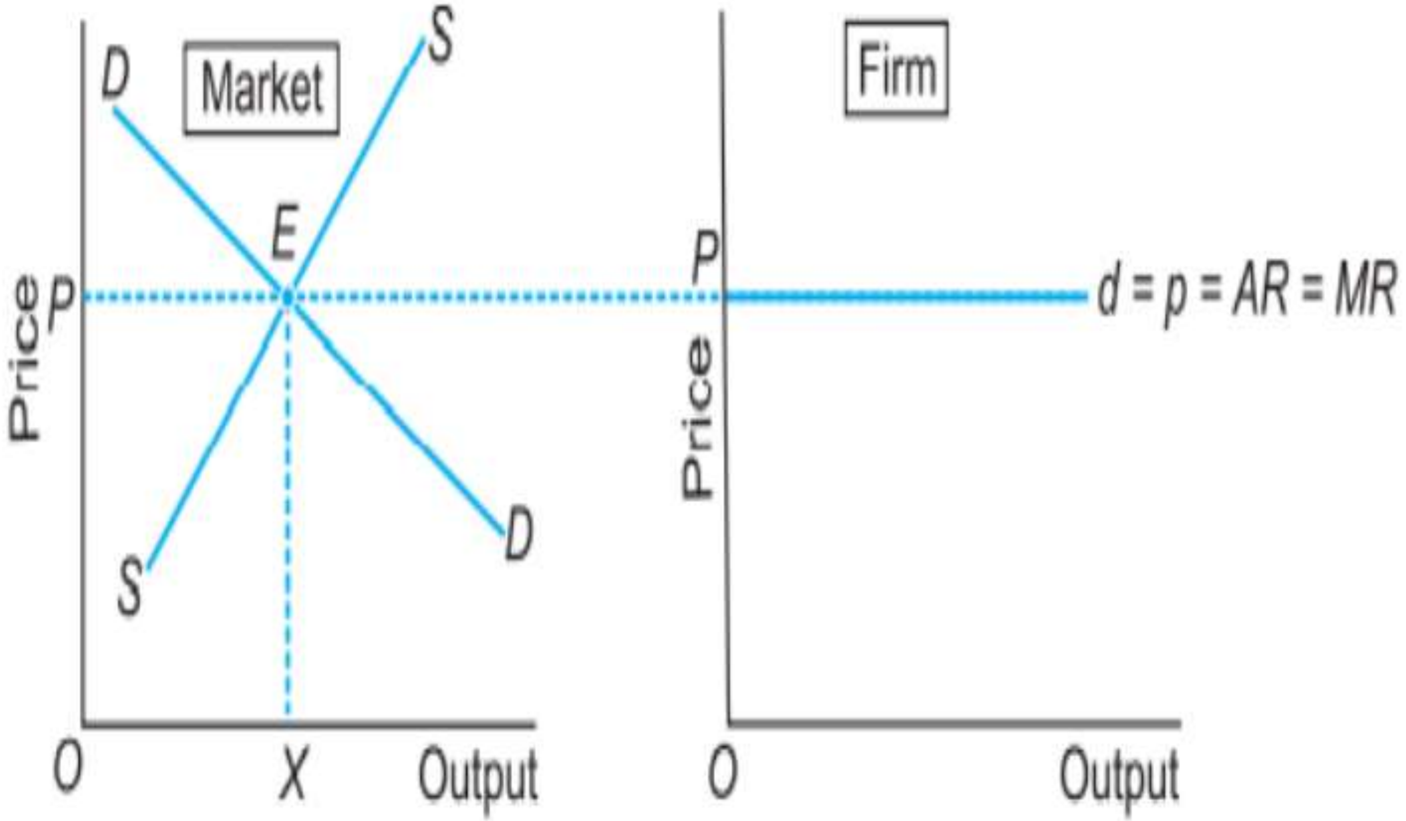
Perfect Competition

- Perfect competition is defined as a market structure in which an individual firm producing homogenous commodities cannot influence the prevailing market price of the product on its own.
- Market structure where there is a perfect degree of competition and single price prevails.
- Perfect competition is a market structure characterized by complete absence of rivalry among individual firms. (Price taker)

Features of Perfect Competition

- Very Large Number of Buyers and Sellers.
- Homogeneous and undifferentiated product.
- Free Entry or Exit of Firms.
- Perfect Knowledge.
- Economic rationality
- Perfect Mobility of Factors of Production.
- Absence of Transportation Cost

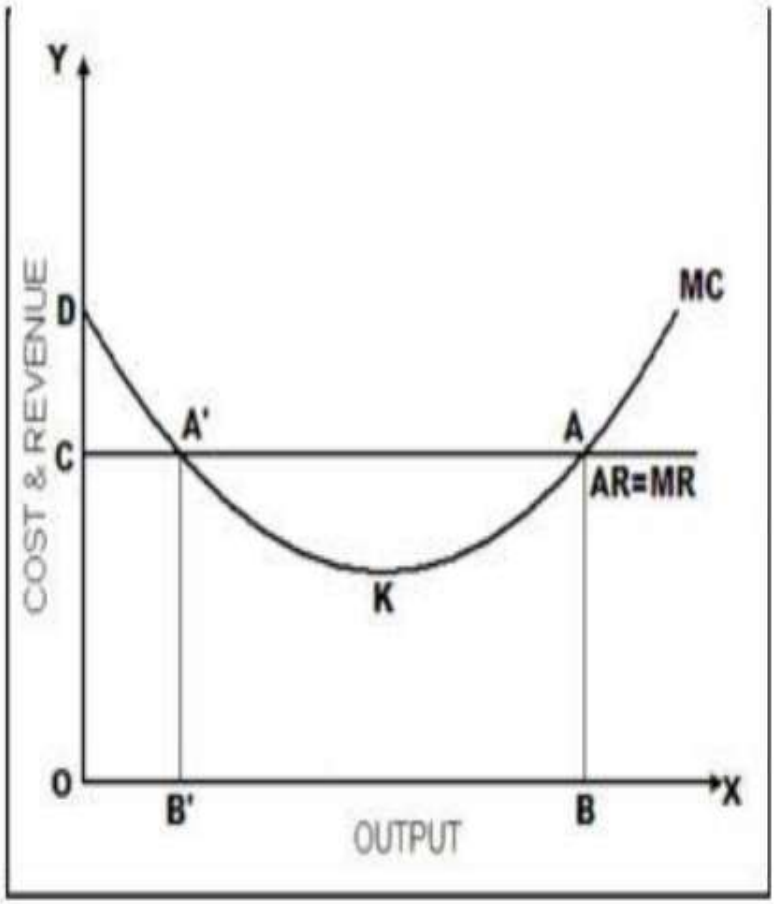
Demand Curve under Perfect Competition



Equilibrium of a firm under Perfect Competition

- We know that the necessary and sufficient conditions for the equilibrium of a firm are:
- **MC = MR**
- **MC curve cuts the MR curve from below**

Equilibrium of a firm using MC and MR curves



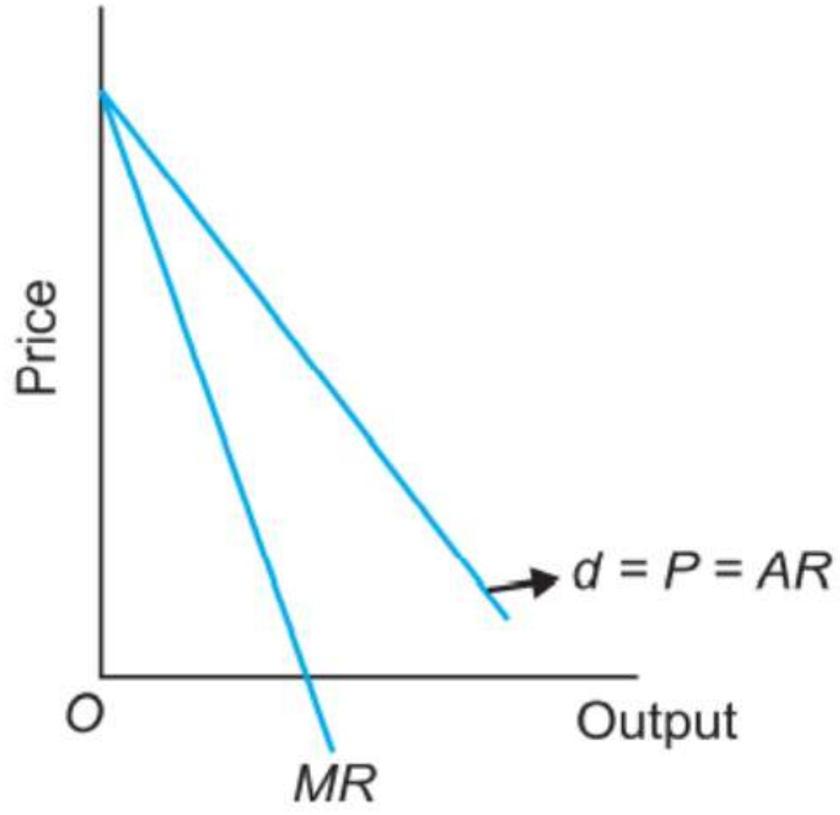
Monopoly

- The word monopoly is derived from two Greek words ‘mono’ means single and ‘polo’ means to sell
- Monopoly is a market in which a single seller sells a product which has no substitutes
- E.g. RBI , Rail transport

Features of Monopoly

- Single seller
- Restriction on entry
- Price maker
- No close substitutes
- Price discrimination
- No difference between firm and industry

Demand Curve Under Monopoly

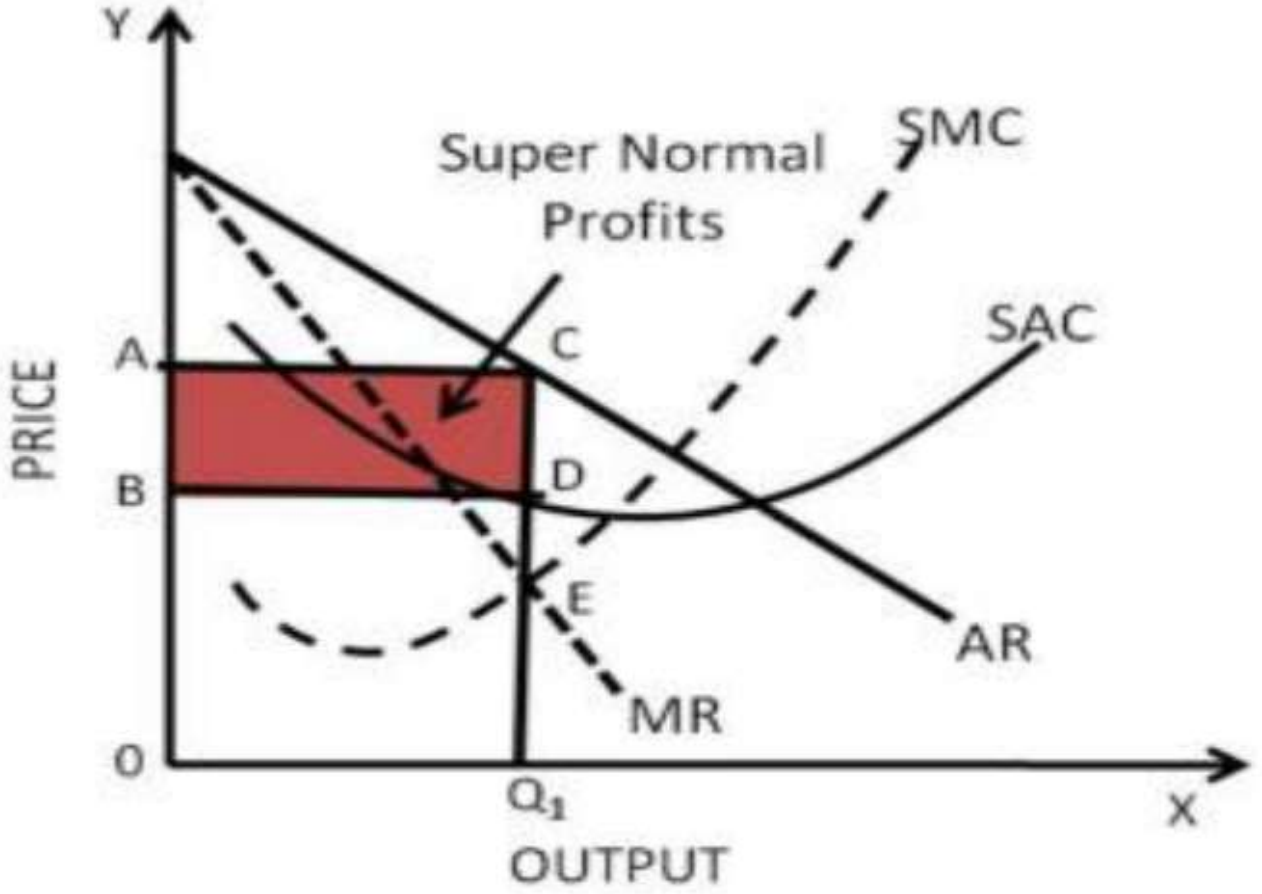


Equilibrium under Monopoly

Under monopoly, for the equilibrium and price determination there are two different conditions which are:

1. Marginal revenue must be equal to marginal cost.
2. MC must cut MR from below.

Equilibrium under Monopoly



Dumping

- It means a monopolist sells his product at a higher price in the home market and lower price in the international market

Regulation of Monopoly

- Promote competition
- Quality of service
- Prevent excess prices

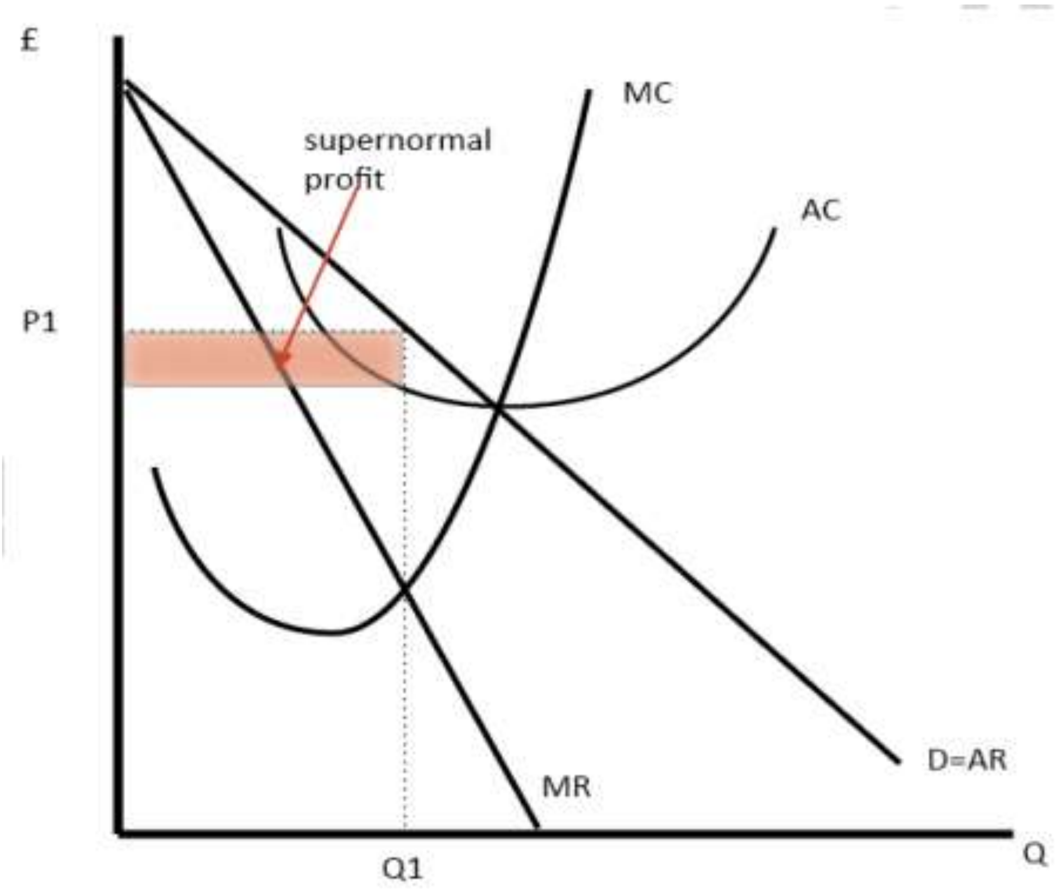
Monopolistic Competition

- It is a market structure at which large number of sellers dealing with differentiated commodities.
- The term Monopolistic comp was given by Prof. Edward H Chamberlin.
- The main feature of monopolistic competition is Product Differentiation
- Product Differentiation means commodities marketed by each seller can be distinguished from the products marketed by other seller in the form of size , shape , brand , colour etc.

Features of Monopolistic Competition

- Large number of sellers
- Product Differentiation
- Freedom for entry and exit
- Advertisement and selling cost
- Lack of Perfect Knowledge

Price – Output determination under Monopolistic Competition



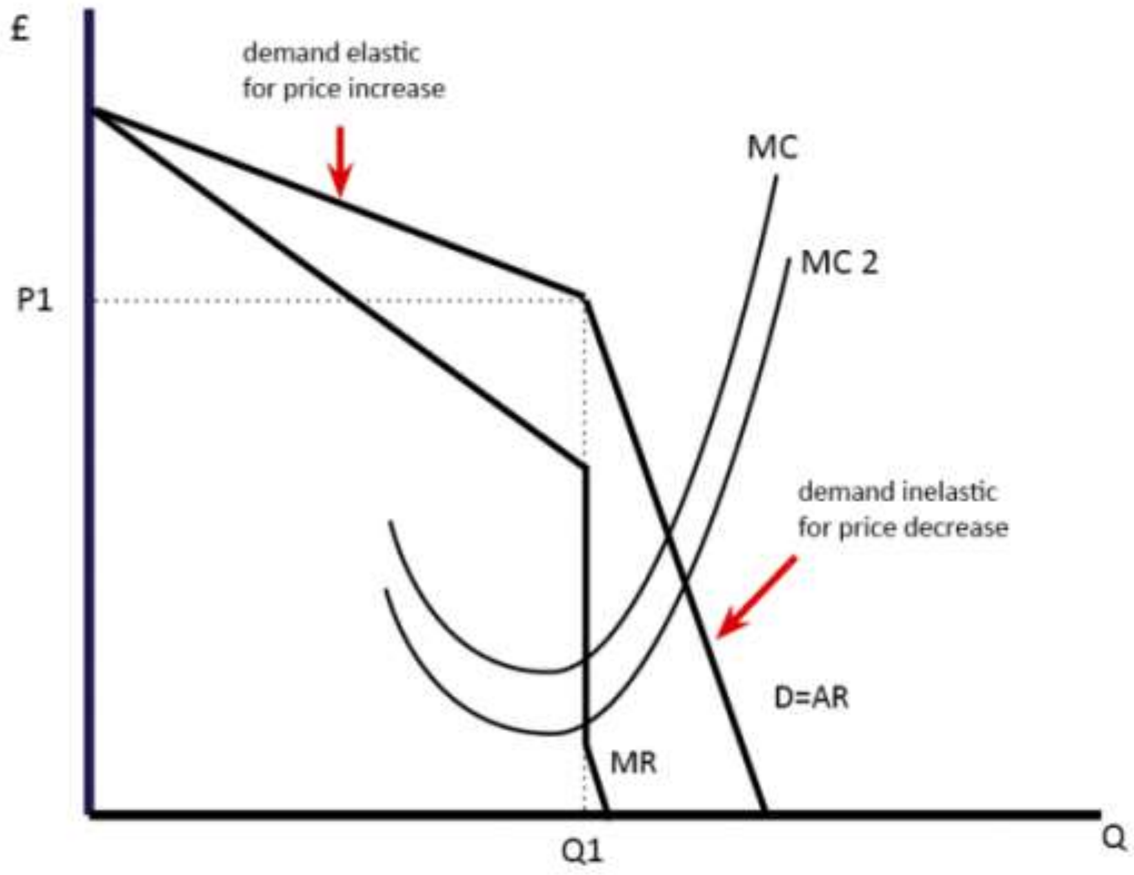
Oligopoly

- The word oligopoly is derived from two Greek words ‘Oligo’ means Few and ‘Polo 'means to sell
- It is a market with few sellers dealing with homogenous and differentiated commodities
- In oligopoly one firm’s action will cause its competitors to react. This shows that firms has interdependence under oligopoly

Features of Oligopoly

- Few sellers
- There are barriers for entry
- Homogenous and heterogeneous commodities
- Interdependence between firms
- Independent decision making

Price – Output determination under Oligopoly



Collusive Oligopoly

- According to Samuelson “Collusion denotes a situation where two or more firms jointly set their prices or output, divide the market among them, or make the business decisions”
- Cartel ----- OPEC

Non – Price Competition

- Non-price competition involves ways that firms seek to increase sales and attract custom through methods other than price.

Forms of Non – Price Competition:

- Loyalty card
- Subsidized delivery
- Advertising/brand loyalty
- After-sales service
- Coupons and free gifts

Product Pricing

- By product pricing presents an opportunity to set the right price for the by products of the main core product so as to earn incremental revenue.

Mark-up Pricing

Target Return Pricing

It is a pricing method in which a formula is used to calculate the price to be set for a product to return a desired profit or rate of return on investment assuming that a particular quantity of the product is sold.

Penetration Pricing

- Penetration pricing is a marketing strategy used by businesses to attract customers to a new product or service by offering a lower price during its initial offering.

Predatory pricing

- It is a method of pricing in which a seller sets a price so low that other suppliers cannot compete and are forced to exit the market.

Going rate pricing

- It is when a business sets the price of its product or service based on the market price

Price skimming

- Price skimming is a product pricing strategy by which a firm charges the highest initial price that customers will pay and then lowers it over time.