Market structure

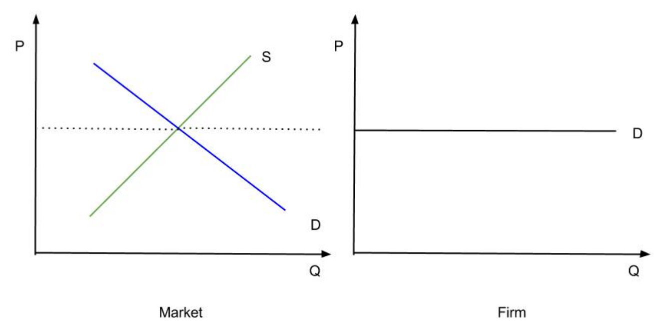
PERFECT COMPETITION

Perfect competition is a completely theoretical market structure

Assumptions:

- Many firms such that a change in output in one firm is too insignificant to change the market output
- No barriers to entry or exit
- Products are homogenous (no marketing, branding; consumers can't tell apart products)
- Producers and consumers have perfect knowledge

Firms are price takers because they can't alter market share and have no market power. The aggregate demand and supply for the whole industry would fix the price that the producer needs to sell at. The demand for the individual firm would be perfectly elastic at the equilibrium price of the industry.



Profit maximization condition: MC = MR

The short run abnormal profit condition would be when:

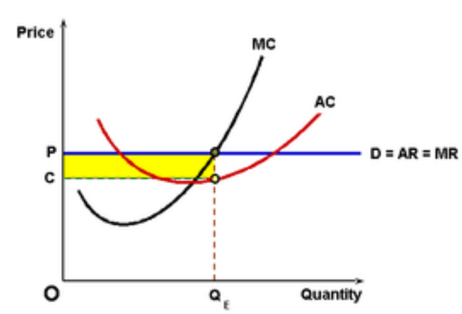
AC < AR

Short run subnormal profit condition:

AC > AR

Breakeven:

AC = AR



Short run abnormal profit and loss situation

Long run

Monopoly

Monopolistic competition

Oligopoly

Assumptions:

- There are a few firms that dominate the market
- The firms that dominate the market generate a large amount of the market share
- There are distinct barriers to entry

Collusive oligopoly – monopoly

- Cartel – illegal because it gives too much power to the group
- Tacit (informal)