LECTURE 3.0

MARKET STRUCTURE

MARKET STRUCTURE - LECTURES

3.0 Market structure

3.1 Perfect competition

3.2 Barriers to entry

3.3 Monopoly and monopolistic competition

3.4 Oligopoly

3.5 Oligopoly – The Cournot model

3.6 Oligopoly – The Bertrand model

3.7 Oligopoly – The Stackleberg model

3.8 Oligopoly - Bertrand models with differentiated products

MARKET STRUCTURE - READING

Chapter 8, “Competitors and Competition” in Besanko et al (2010) *Economics of Strategy (focus on pages 212-229).*

Chapter 2, “Industry Analysis” in Mcafee (2002) *Competitive Solutions* (focus on pages 27-34)

Links to readings or downloads are available in Canvas.

UNDERSTANDING MARKET STRUCTURE

Why is understanding market structure important? It can help us determine:

- Pricing
- Entry and exit decisions
- Product positioning in the price-quality space
- Advertising
- Product design

In each case, the decision will be shaped by the market structure.

MARKET STRUCTURES

Defined by:

- Number and size of buyers, sellers and potential entrants (we think about potential entrants as those firms that pose a credible threat of market entry)
- The degree of product differentiation
- The amount and cost of information about product price and quality.
- Conditions for entry and exit of firms.

MARKET OR INDUSTRY STRUCTURES

McAfee characterizes the alternative market structures as follows, based on the size and number of competitors.

- **Fragmented:** Firms are small and unable to affect market conditions. Similar to perfect competition in which the behaviour of competitors can be considered independent of a firms own actions. Exist in part because of important incentives they provide – think of the owner operator of a restaurant.
- **Dominant firm:** A single firm effectively controls market outcomes. Akin to monopoly. May reflect scale considerations, but are subject to technological change.
- **Tight oligopolies:** A small number of major firms. Examples include Coke and Pepsi; Woolworths and Coles; Boeing and Airbus. The lower number of firms offer opportunities for more cooperation amongst industry players.
- **Loose oligopolies:** A moderate number of firms with few entry or exit barriers. McAfee suggests that examples include major oil companies. As industry grows in numbers, so does the challenge of coordination across players.