PFL Academy

Chapter 51: Market Structures and Consumer Choice

Student Activity Packet

THE CHALLENGE

Eliana noticed something strange: her electricity bill was $180/month with only one provider available, but she could choose from five different coffee shops within walking distance, each with different prices. Her phone plan came from one of just three major carriers, and they all charged similar rates. Meanwhile, at the farmers market, twelve different vendors competed for her produce purchases with nearly identical prices.

Why do some markets have lots of competition and similar prices, while others have few sellers with more pricing power? How can Eliana use this knowledge to make smarter spending decisions?

Learning Objectives

- Identify the four main market structures: perfect competition, monopolistic competition, oligopoly, and monopoly.
- Analyze how market structure affects pricing, quality, and consumer choices.
- Apply consumer strategies appropriate to each market structure.
- Recognize market structures in everyday purchases to make better financial decisions.

CORE CONCEPTS

Term	Definition
Perfect Competition	A market with many sellers offering identical products, where no single seller can influence the price.
Monopolistic Competition	A market with many sellers offering differentiated products, giving each some pricing power.
Oligopoly	A market dominated by a few large sellers with significant barriers to entry and interdependent pricing.
Monopoly	A market with a single seller and no close substitutes, giving maximum pricing power.
Consumer Surplus	The benefit consumers receive when they pay less than the maximum price they were willing to pay.

Background: The number of sellers and level of competition creates four distinct **market structures**, each with different implications for your wallet and choices. As competition decreases (from perfect competition to monopoly), seller power increases and consumer surplus typically decreases. Understanding these structures helps you adjust your shopping strategy—knowing when to shop on price alone, when to negotiate, and when you're simply stuck paying what the seller demands.

APPLY IT

PART A: MARKET STRUCTURE IDENTIFICATION

For each market, identify the structure and explain how it affects you as a consumer.

Scenario 1: Gasoline Stations

All gas stations on the same corner charge nearly identical prices ($3.89, $3.91, $3.89). One station's gas is chemically identical to another's. Any station charging significantly more would lose all customers.

Market Structure: ______________________ (perfect competition / monopolistic / oligopoly / monopoly)

Consumer Strategy: ____

____

Scenario 2: Cell Phone Carriers

Only 3-4 major carriers dominate the market (AT&T, Verizon, T-Mobile). Starting a new carrier would require billions in infrastructure. All carriers offer similar plans at similar prices, and when one raises fees, others typically follow.

Market Structure: ______________________ (perfect competition / monopolistic / oligopoly / monopoly)

Consumer Strategy: ____

____

Scenario 3: Coffee Shops

Your neighborhood has Starbucks, Dunkin', and three local cafes. Each offers similar coffee but with different atmospheres, prices, and experiences. Starbucks charges $5 for a latte that costs $3.50 at the local shop.

Market Structure: ______________________ (perfect competition / monopolistic / oligopoly / monopoly)

Consumer Strategy: ____

____

Scenario 4: Electricity Provider

There is only one electric company in your area. Building a competing power grid would cost billions and duplicate infrastructure unnecessarily. The company's rates are regulated by the state public utility commission.

Market Structure: ______________________ (perfect competition / monopolistic / oligopoly / monopoly)

Consumer Strategy: ____

____

Hint: *Ask yourself: How many sellers are there? Are the products identical or differentiated? Can new competitors easily enter the market?*

PART B: CONSUMER SURPLUS COMPARISON

Compare how market structure affects what you pay. The table shows monthly streaming service costs under different market conditions.

Factor	Perfect Competition (Many identical services)	Oligopoly (5 major services)	Monopoly (1 provider)
Monthly Price	$8	$15	$25
Content Library	Same content	Differentiated	All content
Annual Cost (×12)			
5-Year Cost			

5. How much more would a consumer pay over 5 years in a monopoly market compared to perfect competition?

____

6. Why can a monopoly charge $25/month when competitive markets charge only $8 for similar entertainment value?

____

____

7. In the current oligopoly streaming market, what TWO strategies could you use to reduce your entertainment costs?

____

____

PART C: PERSONAL MARKET ANALYSIS

8. List your three biggest monthly expenses. For each, identify the market structure and rate your consumer power (Low/Medium/High).

Expense	Monthly Cost	Market Structure	Your Power
	$		
	$		
	$		

9. Based on your analysis, where do you have the least control over prices? What specific strategy could help you save money in that market?

CHECK YOUR UNDERSTANDING

1. A market with many sellers offering differentiated products is called:

- ☐ A. Perfect competition
- ☐ B. Monopolistic competition
- ☐ C. Oligopoly
- ☐ D. Monopoly

2. Explain why consumer surplus is highest in perfect competition and lowest in monopoly markets.

3. Calculation: A gym membership costs $30/month in a competitive market and $55/month in a monopoly market. How much would a consumer save per year in the competitive market?

Show your work:

Answer: $____________ saved per year

4. DeShawn wants to switch phone carriers but notices all three major providers charge the same $85/month for similar plans. What market structure is this, and what strategy should he use?

5. Reflection: Identify one purchase where understanding market structure could have helped you get a better deal. What market structure was it, and what would you do differently?