MONOPOLISTIC MARKET: ITS DYNAMICS AND DOMINANCE

INTRODUCTION

The Father of economics Adam Smith in his book “The Theory of Moral Sentiments (1759)” wrote about the main characteristic of human beings. According to him a human being weighs between what he pays and what he receives in ‘return’ that is, a particular human being will be willing to trade till what he is giving is less than what he is receiving. So, Adam Smith pointed towards the concept of ‘self- love’ or ‘selfishness’ of human beings, which became an important feature in the development of market.

WHAT ACTUALLY IS MARKET ?

According to Jevons, **“Originally, a market was a public place in a town where provisions and other objects were exposed for sale.”** But market is a generalized term so the idea of locality is not necessary, that is a trader may be spread over a whole town, or region, or country and yet, can form a market if there are means to sell or trade.

So, a better definition was given by a French economist Cournot, **“Economists understand by the term market no any particular market place in which things are bought and sold but the whole region in which buyers and sellers are in such fee intercourse with one another that the price of the same goods tends to equality easily and quickly.”**

To sum up in simple words, we can explain market in three major ways:

Markets as places to buy and sell: This is the most concrete definition that it is a place where people interact physically or virtually to buy and sell things. So, in today's world a market can simply be a public place like a mall or virtual 'locations' like Amazon or Flipkart.

Markets defined by product categories: A market is concept that covers broad product categories. For example, market for cars or market for wheat or even, market for stock exchanges.

Market as an economic system relies on different markets to conduct a variety of economic activities.

MARKET STRUCTURE

The structure of a market refers to the characteristics and organization of a market within which buyers and sellers interact to exchange goods and services. As we know, the main body of the market is composed of suppliers (sellers) and demanders (buyers) and both parties are equally important. So the market structure aims to find a price that both parties can accept creating an equilibrium quantity that also helps us to understand the characteristics of diverse markets. Market structure mainly depends on the degree of competition prevailing in the market and also in the characteristics that influence the behavior and outcomes of industries, firms, companies working in that specific market.

TYPES OF COMPETITIONS/MARKET STRUCTURES

Broadly speaking there are two types of competition prevailing in the markets:

Perfect competition:

A market structure is said to be perfect competition when every purchaser and seller is small in relative to the entire market that he cannot influence the market price by increasing or decreasing his purchases or his output. In a perfect competition, there is free entry or exit of industries or firms, there should be large number of buyers, sellers and the products should be homogenous (similar products).

Imperfect competition:

It refers to the market structure which have multiple firms or sellers and each firm has some degree of control over its pricing and can differentiate its products to some extent. Even though it may be relatively easier for new firms to enter the market, still there are barriers to entries which may be some government regulations or brand loyalty. In this competition, the firms have some market power which allows them to influence prices or quantities.

- Monopolistic Competition
- Oligopoly
- Monopoly

MONOPOLISTIC COMPETITION

- Monopolistic competition is a market structure where a large number of firms produce similar, though not interchangeable, products.

- In economics, this type of competitive market falls between monopoly and perfect competition. A monopoly occurs when one firm holds all of the market power and sets the market price. Perfect competition is a theory in which companies make products that are perfect substitutes for each other and buyers have perfect information about the market

- Monopolistic competition: Many firms offer similar, slightly differentiated products, each striving for uniqueness. Small distinctions exist among brands. Individual decisions don't impact the entire industry. It's about brand strategy and product variation.

EXAMPLES

Grocery stores:

- Grocery stores exist within a monopolistic market as there are a large number of firms that sell many of the same goods but with distinct branding and marketing.

Hotels:

- Each hotel company offers a similar service with slight variations in pricing and quality levels.

Clothing stores:

- Another example of a large number of firms competing for marker share, general clothing stores offer differentiated products that are typically very similar.

•Characteristics of a Monopolistic Competition:

1.**A large number of firms**: In this type of imperfect market, several firms compete for a market share with no single firm monopolizing the market.

1.**Product differentiation**: Each firm produces goods or services that are close substitutes for the good or services produced by other firms. Competitive firms differentiate their similar products with distinct marketing strategies, brand names, and slightly different quality levels. Product differentiation enables firms to command higher prices for lower quantities of goods.

1.**Low barriers to entry**: In a monopolistic market, new firms have low barriers to enter the market. Entrants can also exit the market with relative ease. It is not necessary to explain the reasons behind it.

1.In monopolistic competition, firms act as price makers, setting prices without triggering price wars common in oligopolies. Profit maximization occurs when marginal revenue equals marginal cost. As more firms enter, demand elasticity rises, making sales more price-sensitive.

Features of Monopolistic Competition:

1. Under monopolistic competition, a buyer can only buy a specific type of product from a single manufacturer. In other words, product differentiation exists.
1. Because there is product differentiation, businesses must incur sales expenses.
1. There are a lot of sellers, and their demand and supply are all intertwined. Sellers set prices and the demand curve for a single seller's goods is downward sloping. Demand isn't completely elastic.
1. The company can also increase or degrade the quality of its products. Improving the product's quality helps to increase demand and pricing. Lowering the quality helps lower the average producting cost.
1. Inputs are also a source of competition for businesses. They must also work within a certain technological range. As a result, no company can provide a higher-quality product at a lower average price.
1. Firms should be aware of their demand and cost conditions. They must also apply this knowledge in order to optimize the predicted profit income.
1. A company can quit a product group's group of companies at any time. New enterprises can also join the group and produce close alternatives for the company's existing items. This assures that no company loses money or makes excessive profits.

PROS AND CONS OF MONOPOLISTIC MARKET

PROS

CONS

Consistent quality of products or services: Monopolistically competitive industries require firms to create different products that compete for market share. For an individual firm to succeed, it must maintain a certain level of quality compared to its competitors.

Multiple choices for consumers: Although consumers in monopolistic markets may have imperfect information influencing their buying decisions, they have several options to research before making a purchase

Decision-making power: In monopolistic competitions, firms have decision-making power over when to enter and exit the market, how to set their prices, and how to market their products. With a large number of firms in the market, an individual firm has the freedom to make decisions without setting off a chain reaction.

1. **Inefficiency:** In monopolistic competition, firms often operate with excess capacity, meaning they are producing less than they are capable of producing. In this way, firms in a monopolistic market run the risk of being productively inefficient and creating allocative inefficiencies, or a mismatch between output and buyer need.
1. **Long-term normal profit:** In the short run, firms in monopolistic competition experience positive economic profit. However, in the long run, a firm typically experiences zero economic profit, or normal profit, where its total cost is equal to its total revenue.
1. **Waste:** Firms operating in monopolistic markets are incentivized to differentiate their products. This can lead to waste in the form of excess packaging or marketing materials with no utility.

Equilibrium for Monopolistic Competition:

Types of monopolistic equilibrium

Short-run equilibrium

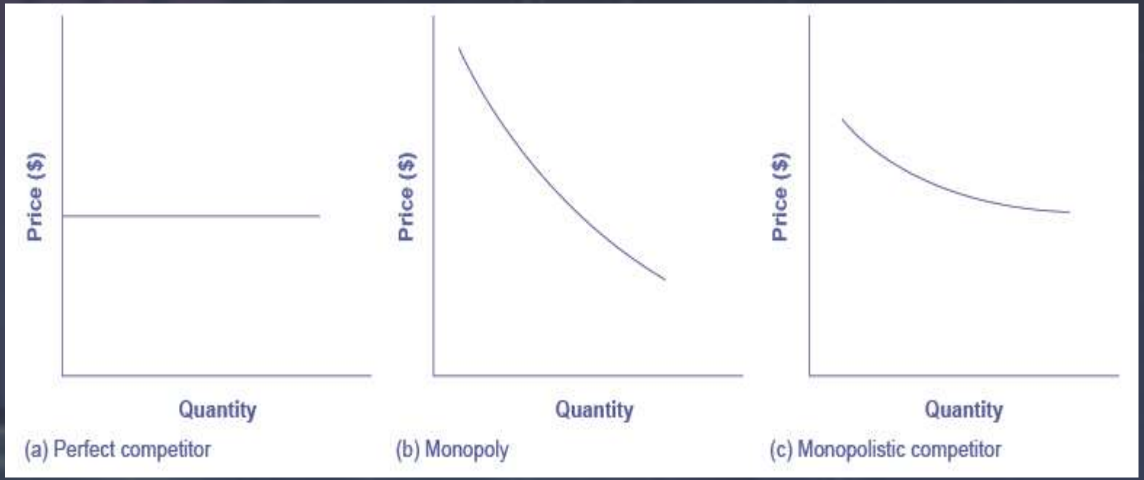
Long- run equilibrium

Short-run equilibrium increases profit and makes marginal revenue (MR) and marginal cost (MC) equal.

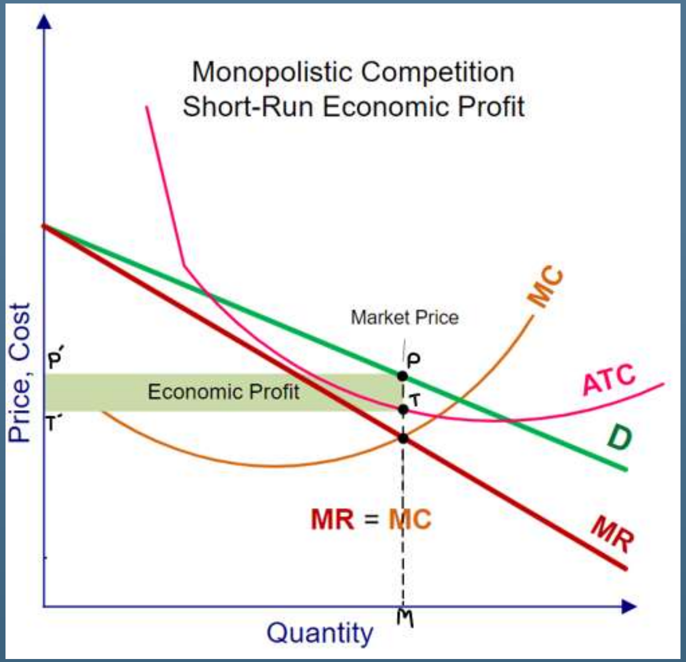
Long-run equilibrium makes changes in marginal revenue and average revenue (AR) in the entrance of other brands

Perceived Demand for a Monopolistic Competitor:

- The **demand curve** as faced by a perfectly competitive firm is **perfectly elastic** or flat, because the perfectly competitive firm can sell any quantity it wishes at the prevailing **market price.**
- the demand curve, as faced by a monopolist, is the market demand curve, since a monopolist is the only firm in the market, and hence is downward sloping.
- The demand curve as faced by a monopolistic competitor is downward-sloping, meaning that like monopoly, it can raise its price without losing all its customers or lower its price and gain more customers



Monopolistic Competition-Short Run

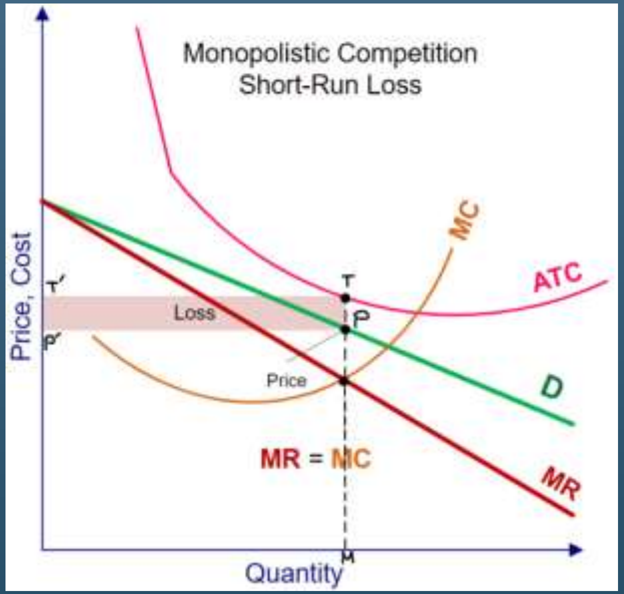


In the short run, a monopolistically competitive firm maximizes profit by producing that quantity where MR=MC. If average total cost (AVC) is below the market price, then the firm will earn an economic profit or the super normal profit.

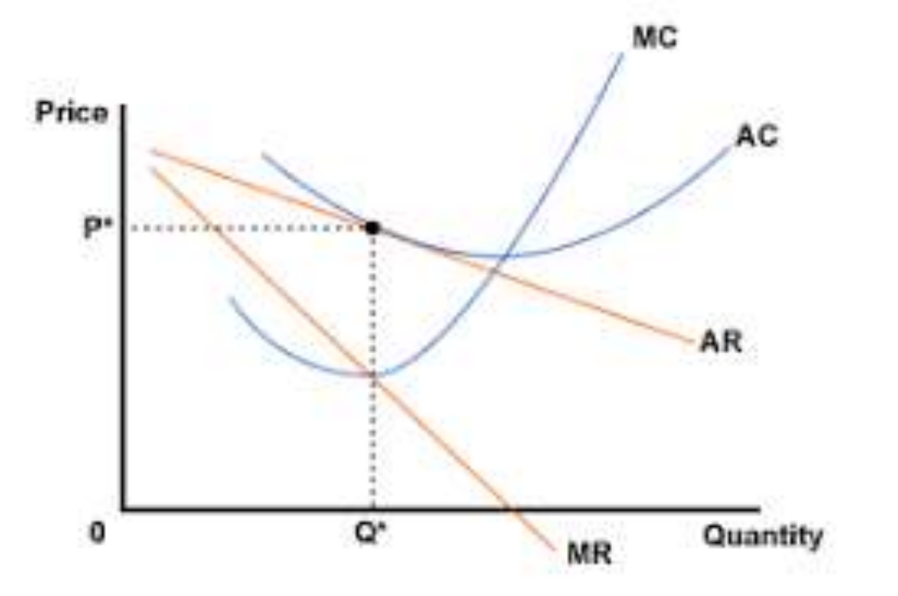
Short-Run Profit = (Price – ATC) * Quantity

However, if the average total cost exceeds the market price, then the firm will suffer losses equal to the short-run profit. Losses will still be minimized by producing that quantity where MR=MC, but eventually the firm either must reverse the losses or be forced to exit the industry.

Short-Run Loss = (ATC – Price) * Quantity



Monopolistic Competition- Long Run



In the long run, firms will be earning only normal profits. The AR curve will be more elastic since large number of substitutes will be available in the long run.

The firms will earn normal profits and thus obtain equilibrium when average revenue (AR) = average cost (AC).

In the long run, both the conditions must hold, i.e.

1. MC = MR
2. AC = AR

Effects of monopolistic market in global economy

Positive Impacts on Market Stability and Brand Recognition

- Monopolistic markets offer greater stability and support brand expansion, leading to stronger brand recognition.

Facilitation of Large-Scale Infrastructure Investment:

- Monopolistic markets offer greater stability and support brand expansion, leading to stronger brand recognition.

Negative Effects on Consumer Welfare:

- Monopolies reduce market competition, potentially lowering efficiency, innovation, and responsiveness.

Consumer Surplus Reduction:

- Exploitation of market power may limit choices for consumers, forcing them to accept higher prices, thus reducing consumer surplus.

Concentration of Wealth and Economic Power:

- Exploitation of market power may limit choices for consumers, forcing them to accept higher prices, thus reducing consumer surplus.

Inflationary Impact:

- Monopolies may hinder the natural balancing of prices, leading to slower infla rate reduction due to their pursuit of higher profits.

Allocative Inefficiency and Anti-Competitive Practices:

- Monopolies may reduce output, leading to allocative inefficiency, and can engage in anti-competitive practices

Concerns in India's Market Structure:

- Some sectors in India, such as the telecom market, exhibit potential monopolistic trends, raising concerns about market domination and its consequences, including bankruptcy driven by intense competition.

Conclusion:

Monopolistic markets represent a complex economic landscape that has both its advantages and disadvantages. While monopolies can lead to innovation and efficiency in certain cases, they can also stifle competition and harm consumers by limiting choices and raising prices. It’s crucial for governments and regulatory bodies to strike a delicate balance between encouraging innovation and protecting consumer’s interests.

Through this presentation, it is evident that a competitive market structure is generally more favorable for consumers and the overall economy. However, it’s important to recognize that not all monopolies are inherently harmful, and some may provide benefits in certain circumstances. As we conclude, it’s essential to continue studying and monitoring monopolistic markets to ensure they operate in the best interests of society. Proper regulation and oversight are key tools in maintaining a fair and competitive economic landscape.