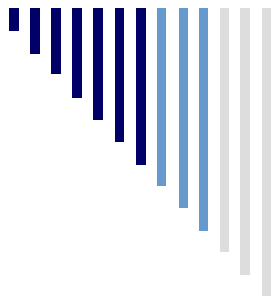



An Orientation to Market Structure



MARKETS AND ITS FORMS

- ❑ Economists have classified industries into four distinct market structures on the basis of following aspects;
 - ❑ The number of Firms in the Industry
 - ❑ Produce Standardized products or Differentiate their products
 - ❑ Control over Price
 - ❑ The Entry of firms into Industry (as well as exit from the industry)
-



Market Structure

Perfect
Competition

Pure
Monopoly




More competitive (fewer imperfections)



Market Structure

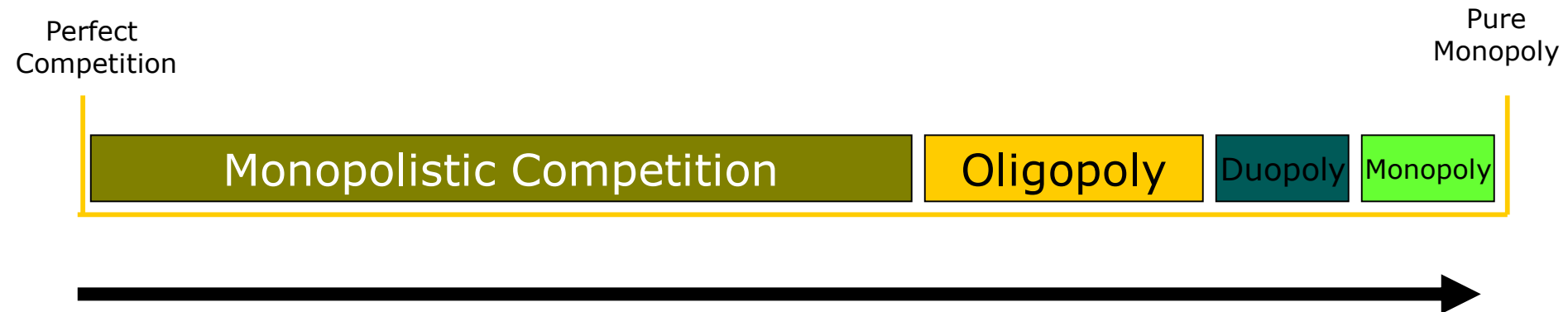
Perfect
Competition

Pure
Monopoly



Less competitive (greater degree of
imperfection)

Market Structure



The further right on the scale, the greater the degree of monopoly power exercised by the firm.



Market Structure

□ **Models – a word of warning!**

- Market structure deals with a number of economic ‘models’
 - These models are a representation of reality to help us to understand what may be happening in real life
 - There are extremes to the model that are unlikely to occur in reality(perfect competition & pure monopoly)
 - They still have value as they enable us to draw comparisons and contrasts with what is observed in reality
 - Models help therefore in analysing and evaluating – they offer a benchmark
-



Market Structure

□ Characteristics of each model:

- Number and size of firms that make up the industry
 - Control over price or output
 - Freedom of entry and exit from the industry
 - Nature of the product – degree of homogeneity (similarity) of the products in the industry (extent to which products can be regarded as substitutes for each other)
 - Diagrammatic representation – the shape of the demand curve, revenue curve etc.
-



MARKETS AND ITS FORMS

- ☐ The four distinct market models are;
 - ☐ Perfect Competition
 - ☐ Monopolistic Competition
 - ☐ Oligopoly
 - ☐ Monopoly
-

CHARACTERISTICS OF MARKET MODELS

Characteristics	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
No. of Firms	A very large No.	Many	Few	One
Type of Product	Standardized / Homogeneous	Differentiated	Standardized or Differentiated	Unique, no close substitute
Control over Price	None (price taker)	Some, but within narrow limits	Limited by mutual interdependence	Considerable (Price maker)
Conditions of Entry	Very easy, no obstacles	Relative easy	Significant Obstacles	Blocked
Non-price competition	None	Emphasis on advertising, brand names, trademarks	Typically a great deal, particularly with product differentiation	Mostly public relations, Advertising

Market Structure

Characteristics: Look at these everyday products – what type of market structure are the producers of these products operating in?



Mercedes CLK Coupe



Canon SLR Camera

Bananas

Remember to think about the nature of the product, entry and exit, behaviour of the firms, number and size of the firms in the industry.

You might even have to ask what the industry is??

