MARKET STRUCTURES

BEP

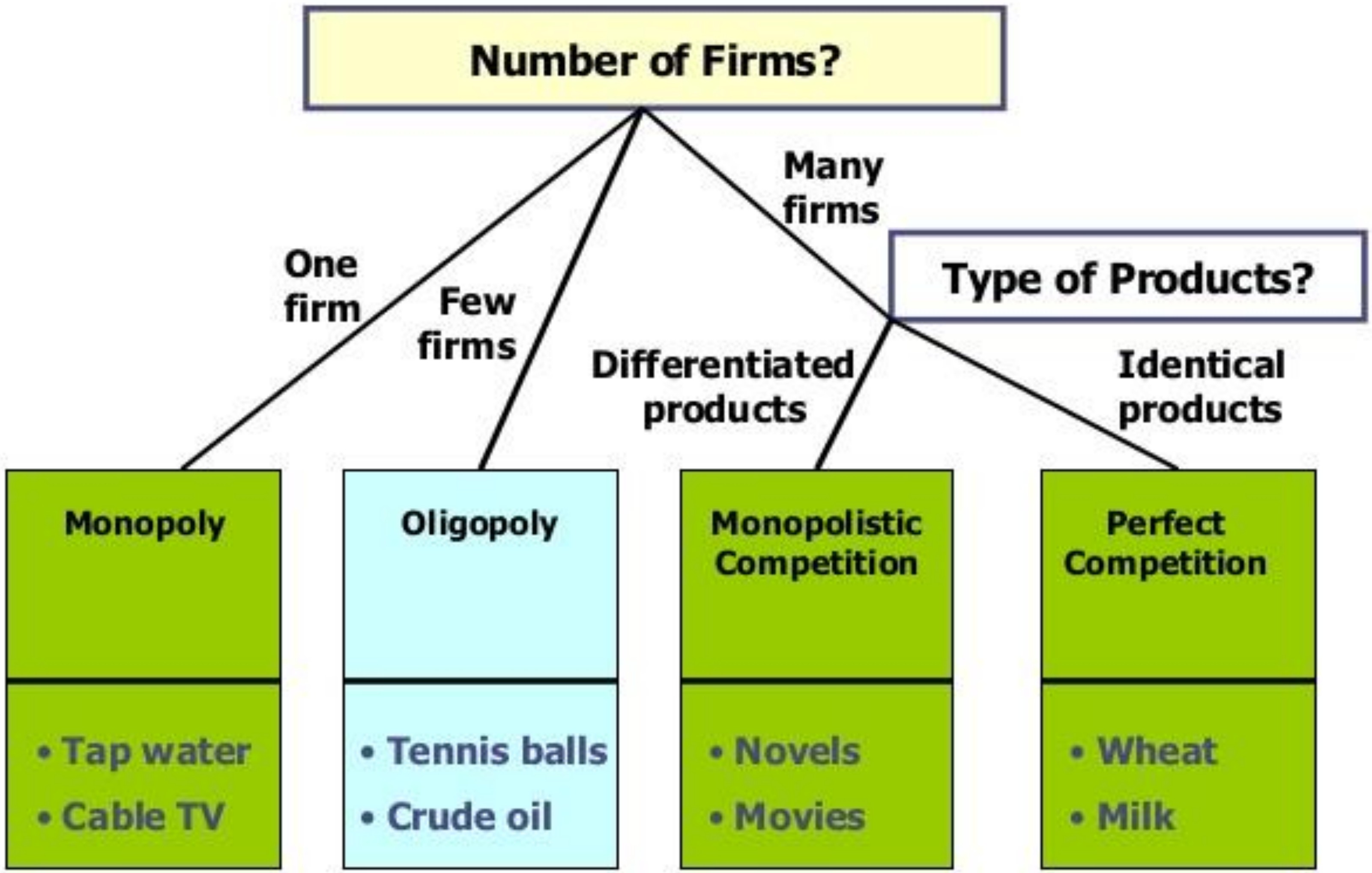
Market Structure

- Market : Any arrangement that enables buyers and sellers to contact for transactions.
- The term market is derived from the Latin word "Marcatus" which means merchandise or trade.
- Market is an area or atmosphere of potential exchange -Phillip Kotler
- Market structure – identifies how a market is made up in terms of:
  - The number of firms in the industry
  - The nature of the product produced
  - The degree of monopoly power each firm has
  - The degree to which the firm can influence price
  - Firms' behavior – pricing strategies, non-price competition, output levels, Profit levels
  - The extent of barriers to entry

1-2


Monopolistic Competition
Perfect Competition
Market Structure
Oligopoly
Monopoly

The Four Types of Market Structure



Market structure	Number of Buyers & sellers	Type of product	Barriers to entry industry	Firm's influence over price	Industry's Example
Perfect competition	Many	Identical	None	None	Agriculture - crops, cereal
Monopolistic competition	Many	Differentiated	None	Moderate	Chicken, beef, pork
Oligopoly	Few	Identical or differentiated	High	Moderate to substantial	Dairy
Monopoly	One	Unique	Impossible	Substantial	Electricity

Source: Own work

Category	Key Features
Perfect Competition (rare in reality)	Many competitors – all offering the same product Intense competition Competitors have to accept the same price
Monopolistic Competition	Many small firms offering differentiated products Each firm has a small market share Examples include restaurants + many local service businesses
Oligopoly	Market dominated by a small number of firms, each with a large market share Tend to compete on non-price factors, including branding Potentially anti-competitive – particularly if competitors collude on price Examples – retail banking, confectionery, grocery retailing
Monopoly	One supplier in the market Has control over price and output – potentially bad news for customers Tend to be heavily regulated to protect consumers

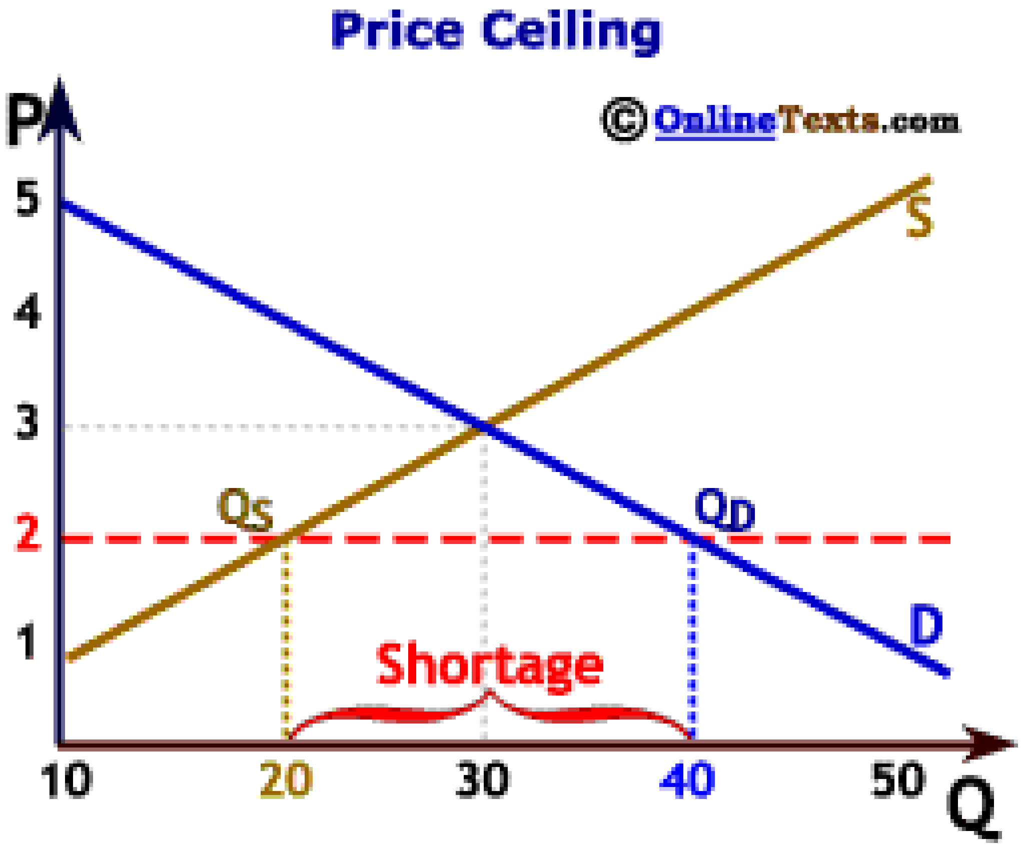
MARKET STRUCTURE

Market Leader	• Fritolay (45 percent cumulative share consisting of Lays, Kurkure, Uncle Chipps, Cheetos and Leher)
Market Challenger	• ITC's Bingo (16%) posing a threat to Lays through its direct frontal attack
Market Follower	• Balaji and local players such as Yellow diamonds. Also included are unorganized offerings, aimed at the price-sensitive, less loyal audience.
Market Nicher	• Parle Monaco's Smart Chips which has identified itself a niche of the more health conscious section of the audience by offering them a baked variant of chips.

PERFECT COMPETITION


Examples of Perfect Competition
Agricultural markets
Free software
Street food vendors
Buzzle.com

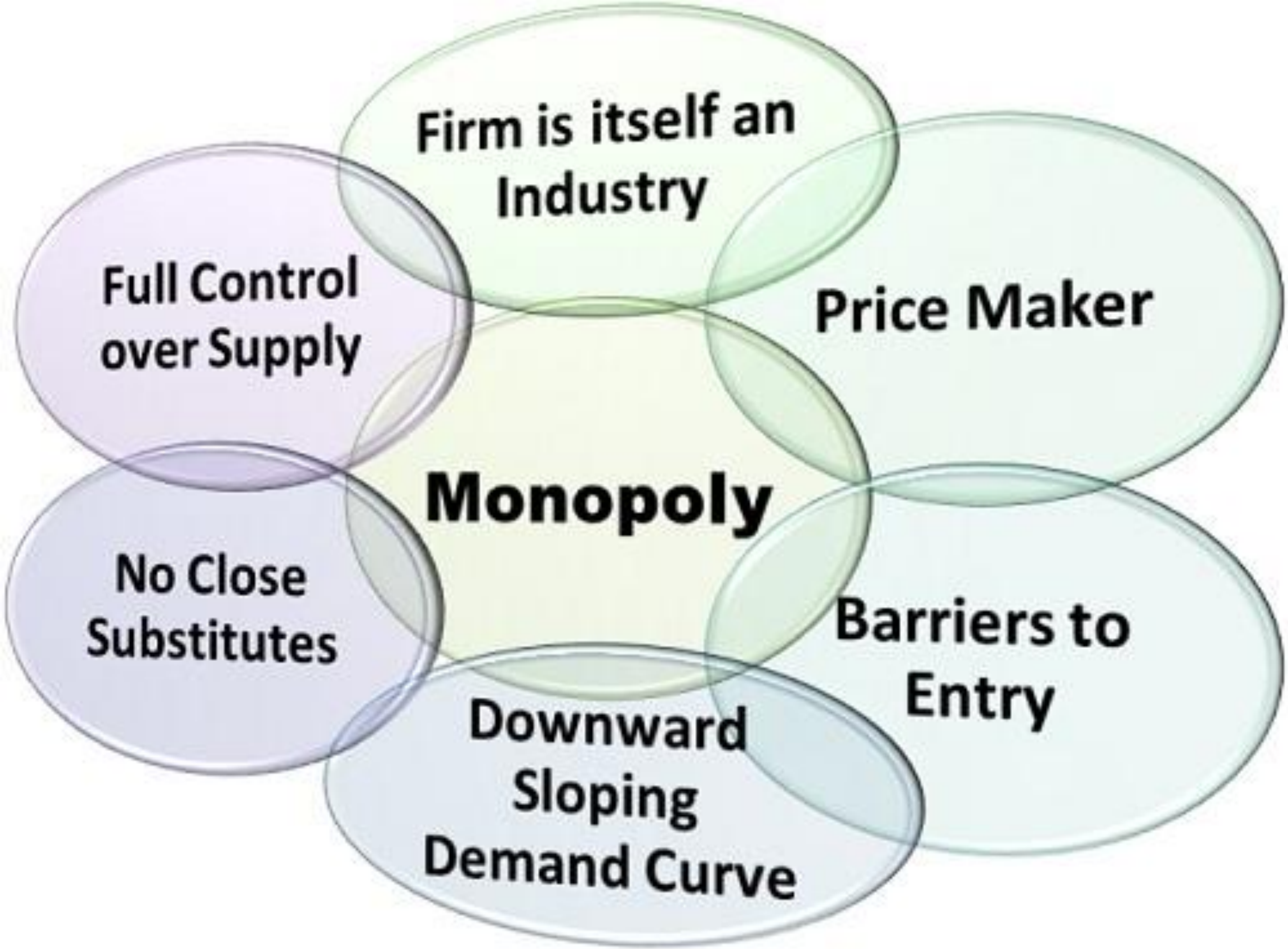

Homogeneous Product
Large buyers and sellers
Free Entry and Exit
Perfect Competition
No Artificial Restrictions
Perfect knowledge of Prices and Technology
No Transportation Cost

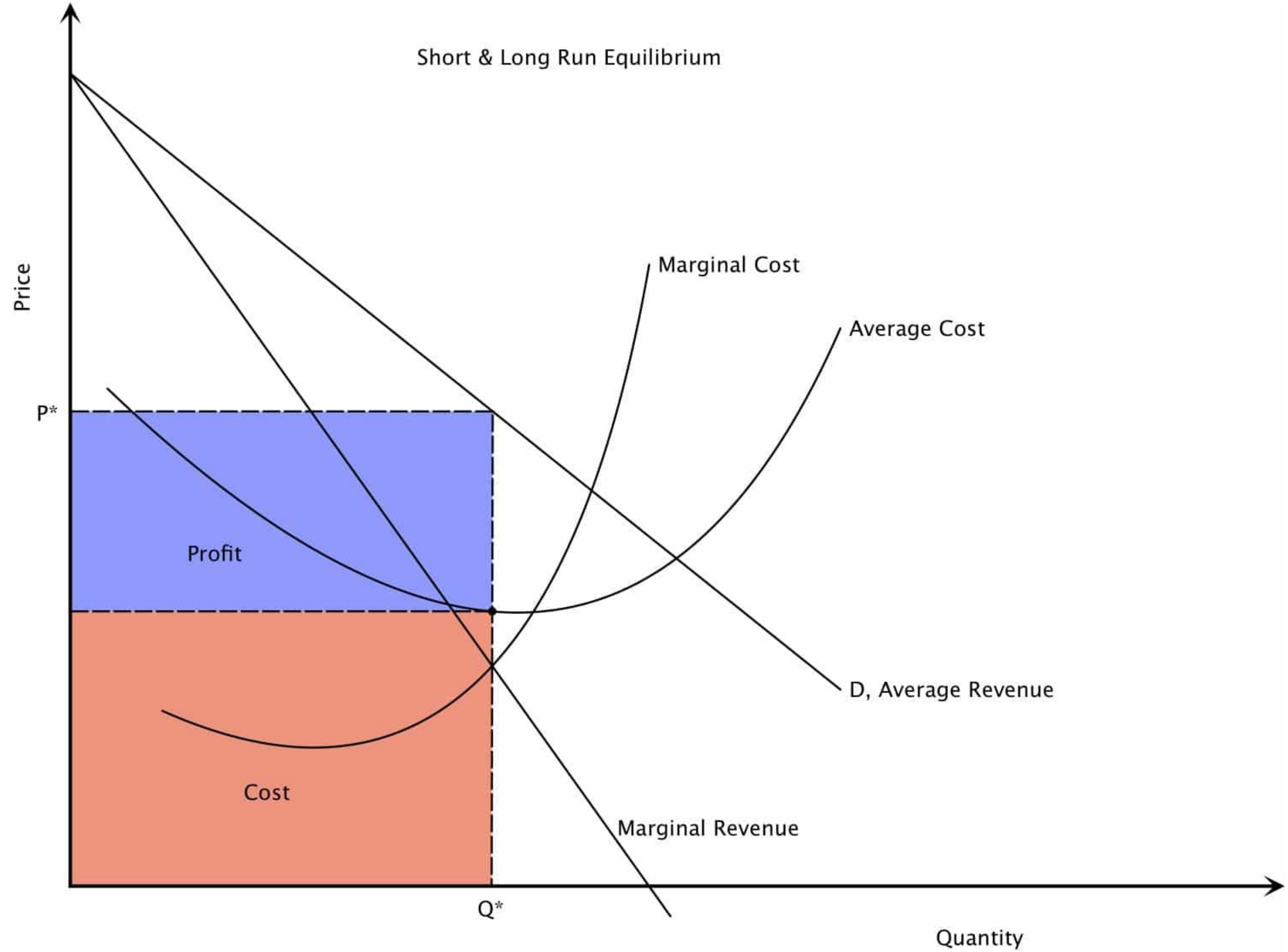

Price Ceiling
P
© OnlineTexts.com
5
4
3
2
1
S
Qs
QD
D
Shortage
10
20
30
40
50
Q

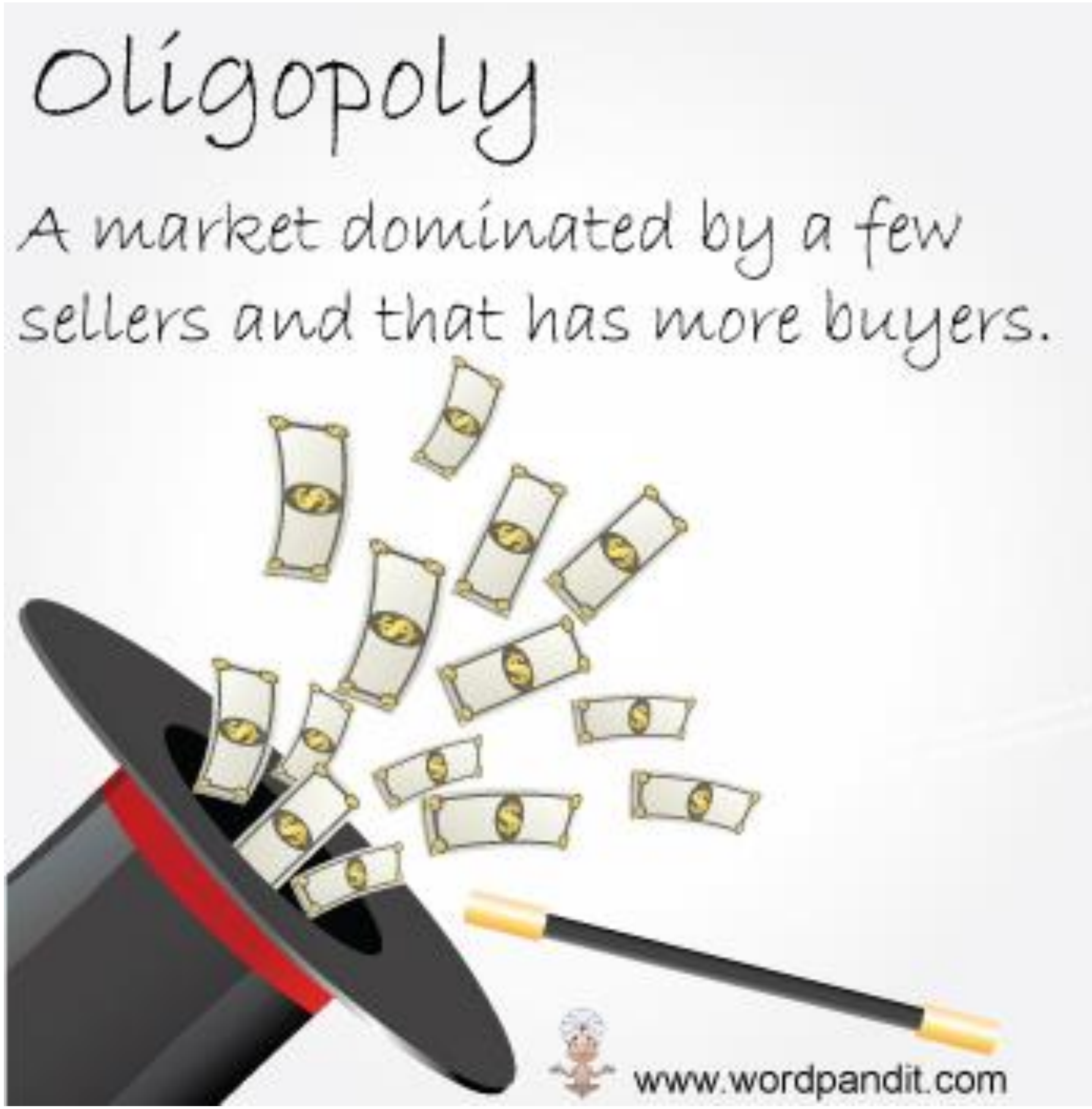

A Sole provider has
the market power
without competitors.
Buzzle.com

Google


TOP INDIAN COMPANIES with MONOPOLY
Presented by: Trade Brains
Visit: portal.tradebrains.in
100%
IRCTC
Rail Network
100%
हिएलि HAL
Aviation Defence
96.5%
Nestlé
Cerelac
82%
Pidilite
Adhesive
68.2%
कॉनकॉर CONCOR
Cargo Carrier
70%
marico
Oil Products
73%
ITC Limited
Cigarettes
77%
HINDUSTAN ZINC
Zinc Mining
78%
कोल इण्डिया Coal India
Coal Mining

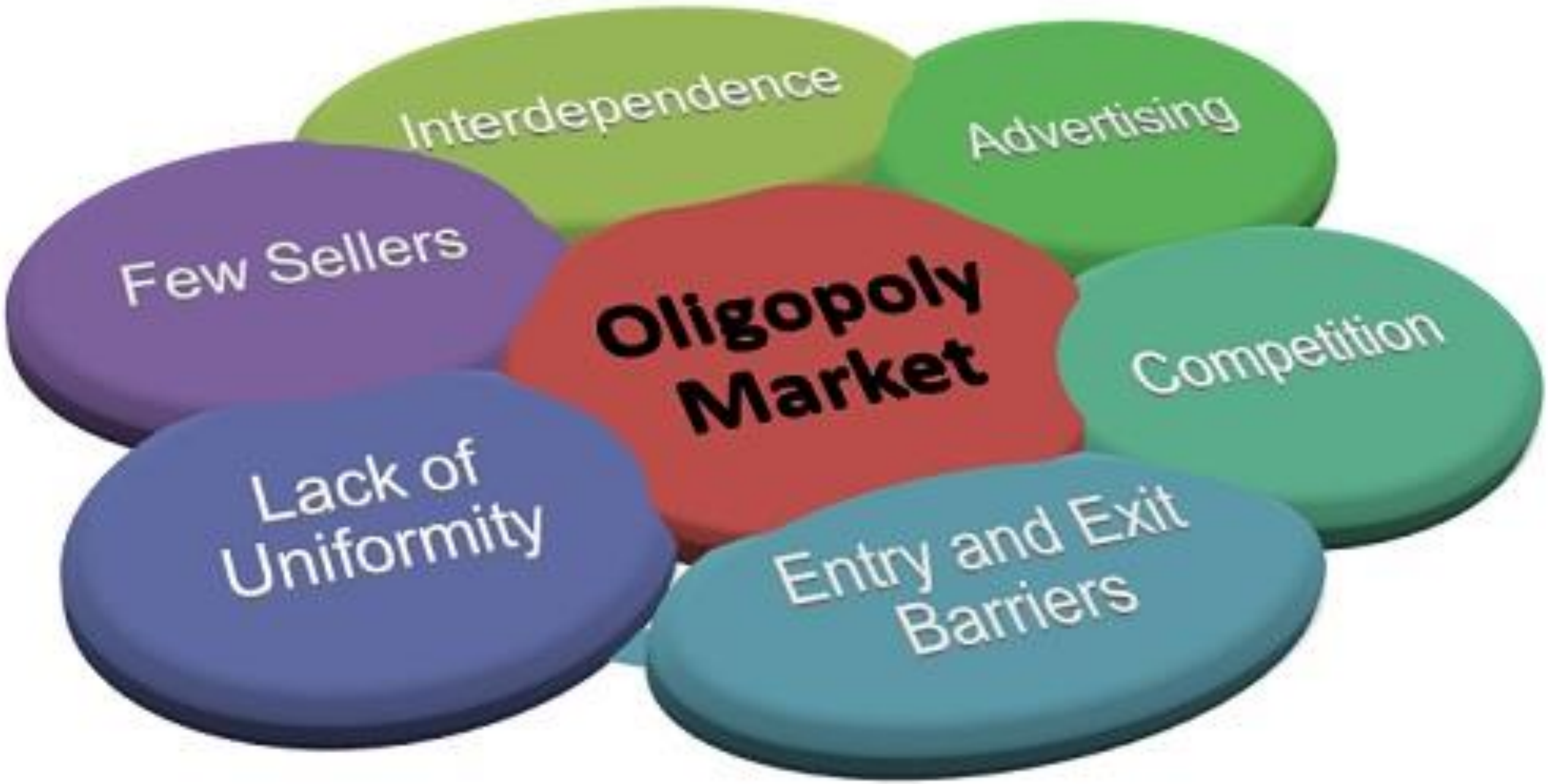

Firm is itself an Industry
Price Maker
Full Control over Supply
Monopoly
No Close Substitutes
Barriers to Entry
Downward Sloping Demand Curve


Short & Long Run Equilibrium
Price
P*
Marginal Cost
Average Cost
Profit
Cost
D, Average Revenue
Marginal Revenue
Q*
Quantity


Oligopoly
A market dominated by a few sellers and that has more buyers.
www.wordpandit.com

EXAMPLES OF OLIGOPOLY

- CAR INDUSTRY
- AIRLINE INDUSTRY
- CIGARETTES
- STEEL INDUSTRY
- TELECOMMUNICATION


Interdependence
Advertising
Few Sellers
Oligopoly Market
Competition
Lack of Uniformity
Entry and Exit Barriers

Kinked Demand Curve – Overview

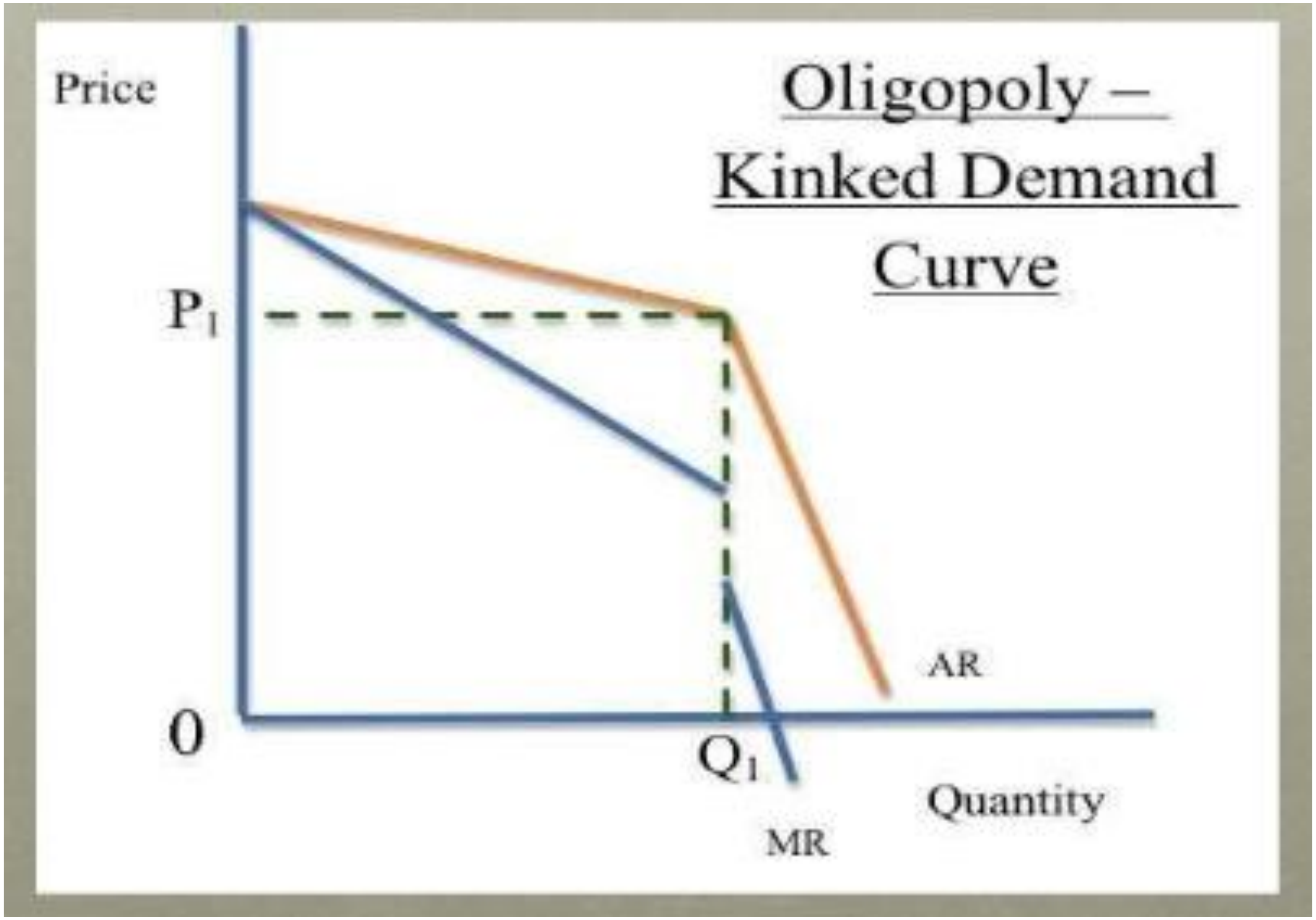
On oligopoly firms have price-setting power **but may be reluctant to use it**

Rivals unlikely to match a price rise and rivals likely to match a price fall

If a firm is settled on one price, there may e little point in changing it

Even if costs change we often see price rigidity / stability in an oligopoly

This increases the importance attached to non-price competition


Price
Oligopoly –
Kinked Demand
Curve
P_1
AR
0
Q_1
Quantity
MR

MONOPOLISTIC COMPETITON

Monopolistic competition refers to a market structure in which a large number of sellers sells differentiated product which are close substitute for one another.


Large Number of Firms
Product Differentiation
Free Entry and Exit
Monopolistic Competition
Product Variation
Some Control Over Price
Heavy Expenditure on Advertisements and Other Selling Cost

Examples of Monopolistic Competition

Shoe repairs and key makers

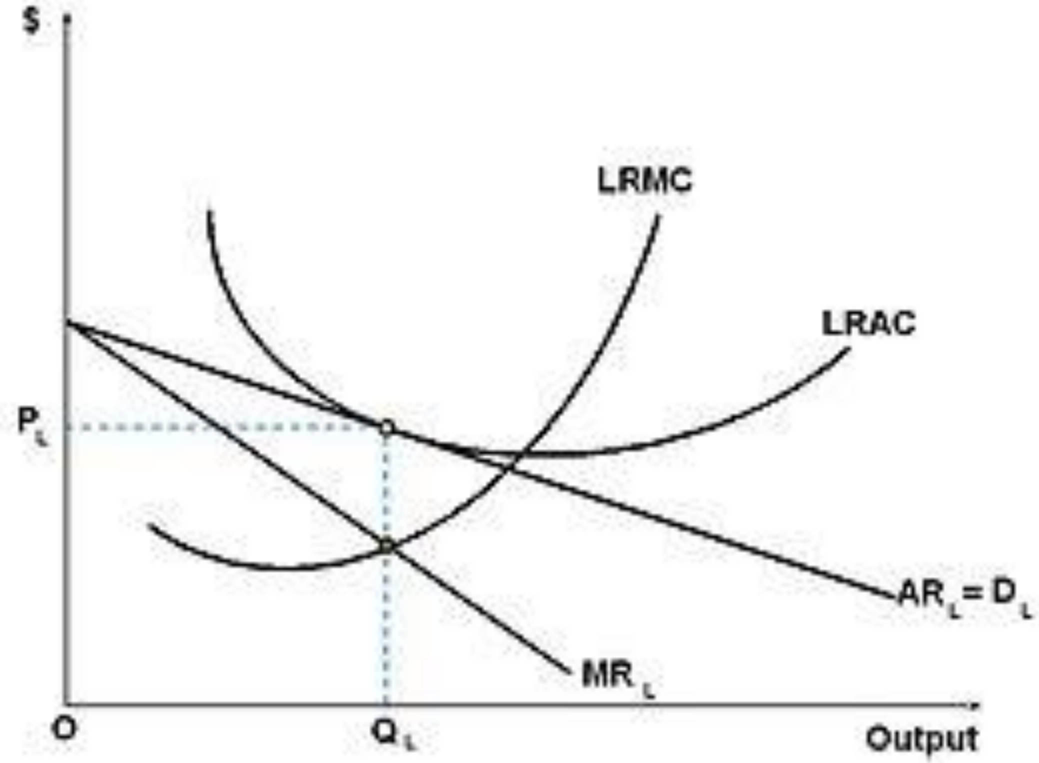
Taxi and minibus companies

Sandwich bars and coffee stores

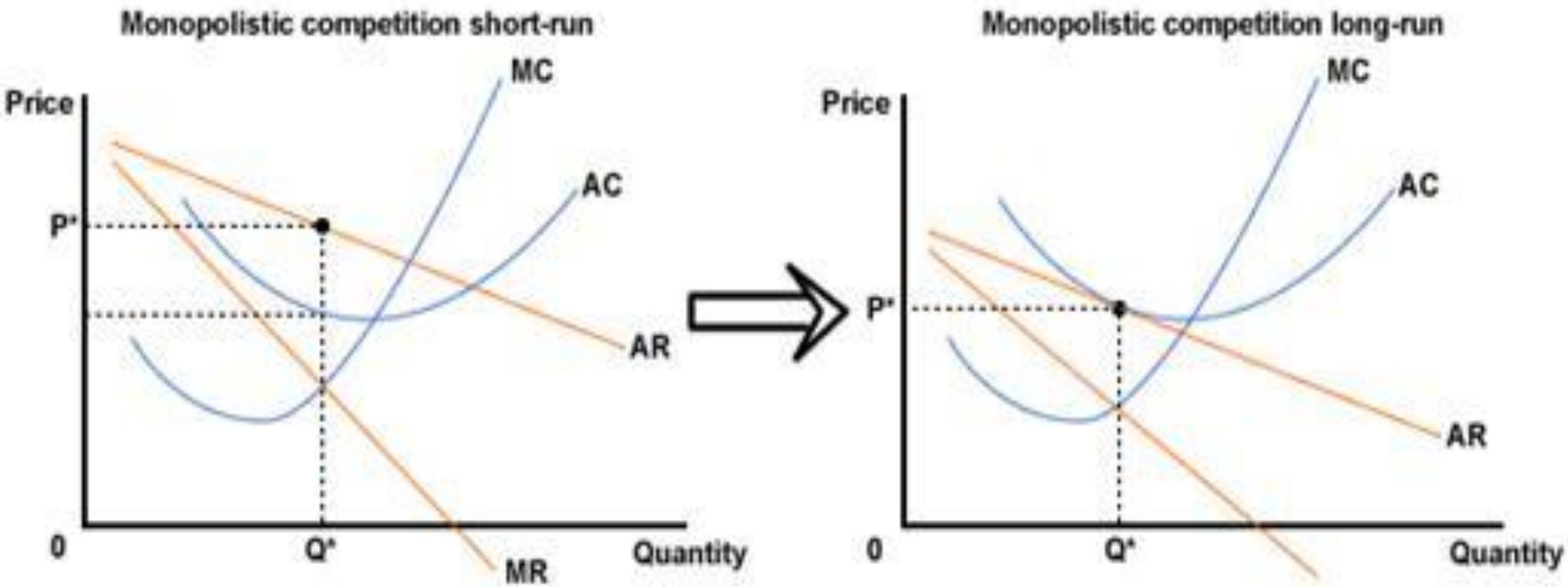
Hairdressing salons

Dry-cleaners and launderettes

Bars and Nightclubs

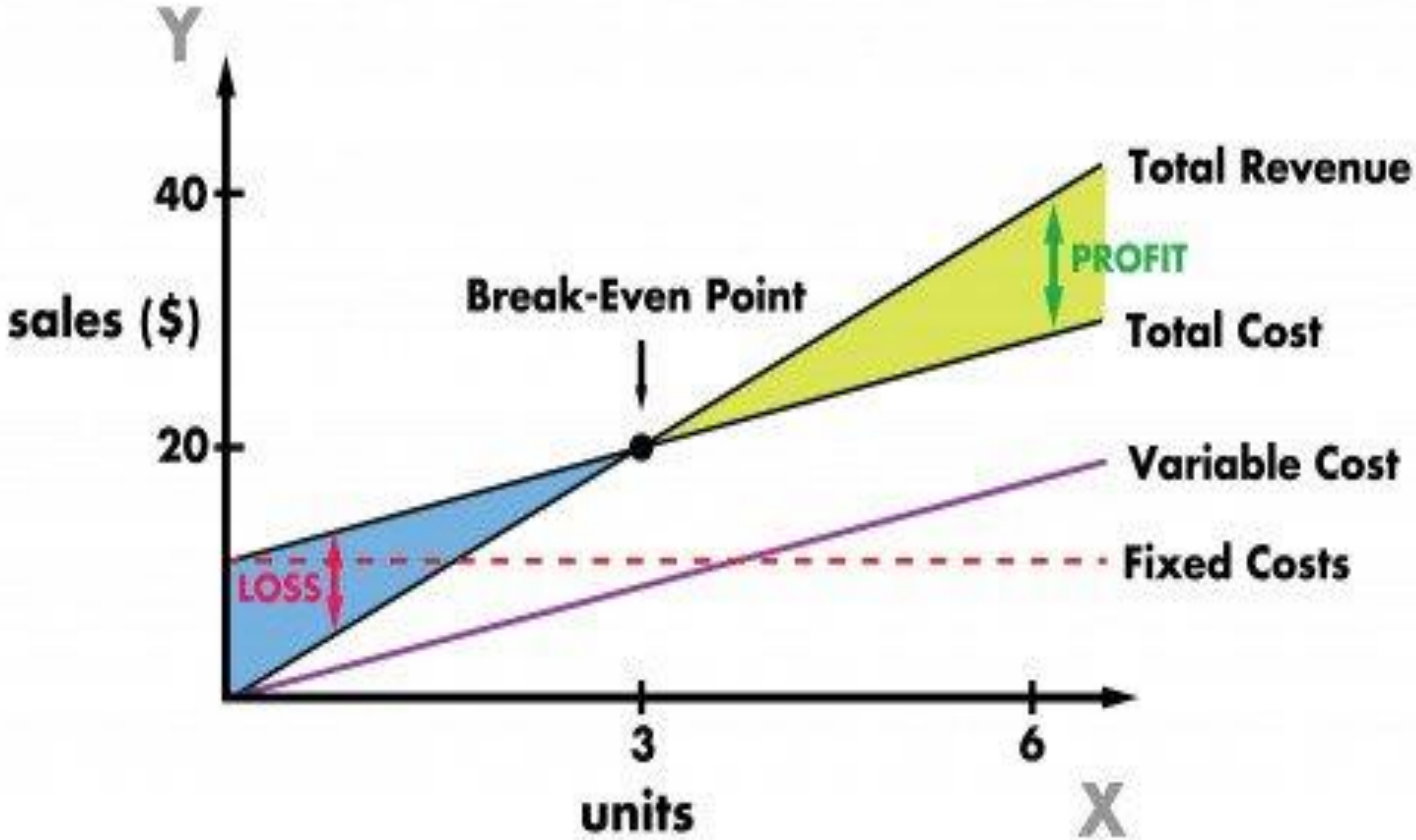


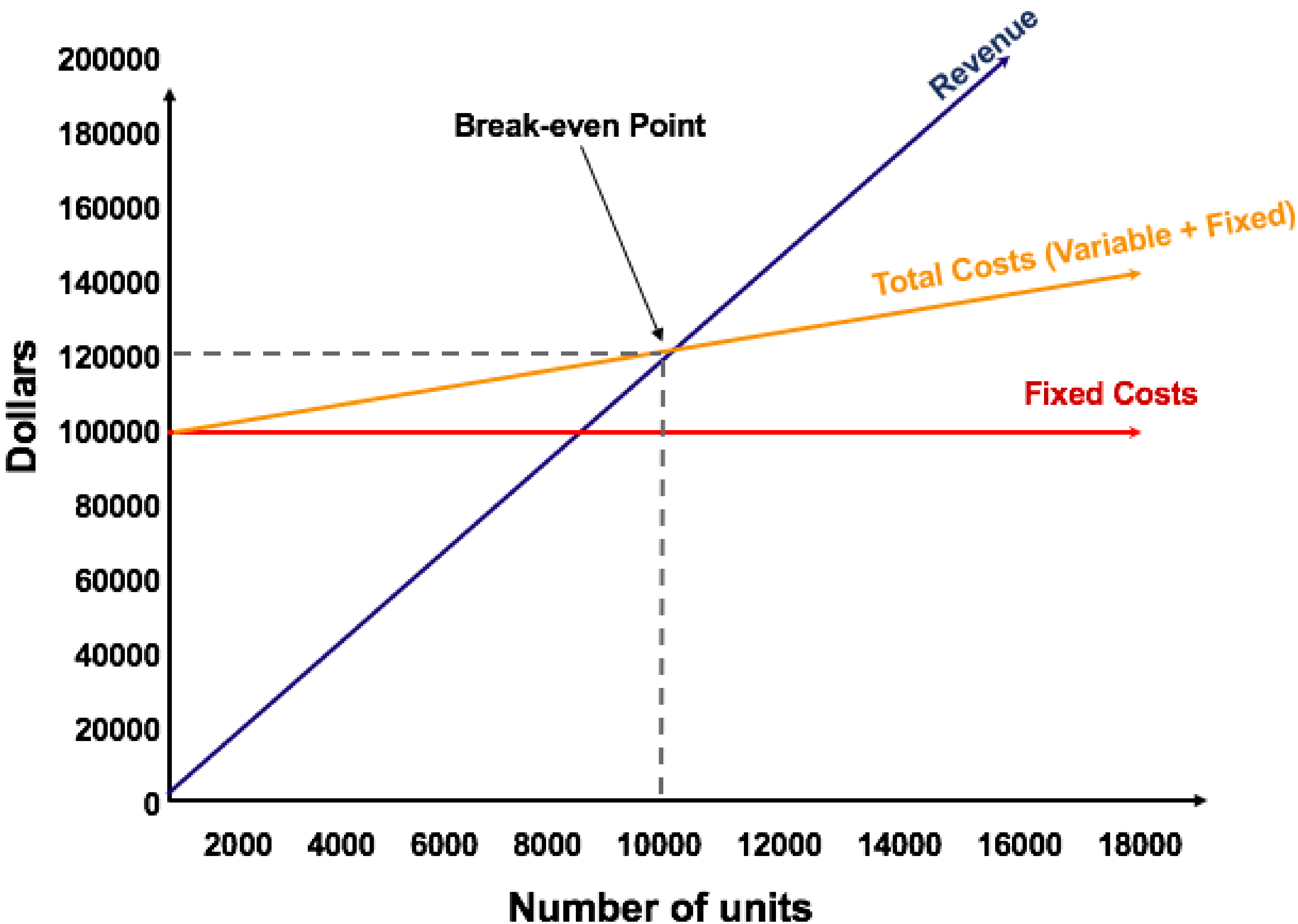
AR=LRAC
MR=LRMC


Monopolistic competition short-run
Price
P*
0
Q*
MC
AC
AR
MR
Quantity
Monopolistic competition long-run
Price
P*
0
Q*
MC
AC
AR
Quantity

BEP

- The break-even analysis lets you determine what you need to sell, monthly or annually, to cover your costs of doing business—your break-even point. The break-even analysis table calculates a break-even point based on fixed costs, variable costs per unit of sales, and revenue per unit of sales.
- Break-even pricing: For instance, if the fixed cost is Rs. 2, 00,000, the variable cost per unit is Rs. 10, and the selling price is Rs. 15, then the firm needs to sell 40,000 units to break even. Therefore, the firm will plan to sell more than 40,000 units to make a profit. If the firm is not in a position to sell 40,000 limits, then it has to increase the selling price.


Y
40
sales ($)
20
Break-Even Point
Total Revenue
PROFIT
Total Cost
Variable Cost
Fixed Costs
LOSS
3
6
units
X


Revenue
Break-even Point
Total Costs (Variable + Fixed)
Fixed Costs
Dollars
200000
180000
160000
140000
120000
100000
80000
60000
40000
20000
0
2000
4000
6000
8000
10000
12000
14000
16000
18000
Number of units

Formulas to Calculate Break Even Point (BEP)

- Break Even Point (in units) = Fixed Costs/Contribution Per Unit
- Break Even Point (in units) = BEP in Sales value/Selling Price Per unit
- Break Even Point (in Rupees) = (Fixed Cost * Selling Price per unit)/Contribution Per Unit
- Break Even Point (in Rupees) = (Fixed Costs/Contribution Per Unit)* Sales
- Break Even Point (in Rupees) = Fixed Cost/PV Ratio
- Break Even Point (in Rupees) = Sales – Margin of Safety
- Contribution=SP-VC

Example

- From the following information determine the Break-Even Point in terms of units and sales value:
  - Output 4000 Units
  - Selling Price Per Unit $20
  - Variable Cost Per Unit $12
  - Total Fixed Costs 40,000

Solution

- Break Even Point (in Units) = Total Fixed Costs/ Contribution Per Unit

  = \$40000/ 20-12 = 5,000 units

- Break Even Point (in Sales Value) = Total Fixed Costs/PV Ratio = 40000/40% = \$100,000

  - Where,

PV Ratio = (Selling Price Per unit – Variable Cost Per Unit)/Selling Price Per unit

= (20-12)/20 *100 = 40%

Assumptions

- 1) The existence of semi variable costs is ignored, whereas most of the costs are not either perfectly fixed or perfectly variable.
- (2) Fixed costs may change if output increases or decreases substantially.
- (3) Possible changes in per unit variable costs due to various reasons like bulk buying discounts, overtime, etc., are ignored.
- (4) Sales price may have to be reduced to win the extra sales or may be increased to cover increased costs.
- (5) As discussed above selling prices and variable costs per unit vary at different output levels.
- (6) Various external factors like inflation rate, economic state may also affect sales volume.

Limitations

- 1. A break-even chart is drawn on the basis of assumptions. But, the assumptions does not hold good. The fixed costs may vary beyond the certain level of operation. Likewise, the variable costs do not vary in direct proportion of the level of operation if the law of diminishing or increasing return is applicable in the business.
- 2. In the break-even chart, both total cost line and the sales line look straight lines. Since the assumptions does not hold good, these lines have not been drawn in straight lines in practice. It leads to several break-even points at different levels of activity.
- 3. Only limited information is available from the break-even chart.
- 4. A single break-even chart does not provide an opportunity to study the effect of various product mixes on profits.
- 5. In the case of managerial decisions, capital employed is taken into consideration. But, the break-even chart does not consider the capital employed. Hence, the managerial decisions cannot be a reliable one.

Thanks