

Market Structure & Degree of Competition

- A "Market" is a system by which buyers & sellers bargain for the price of a product, settle the price & transact their business.
- Market doesn't necessarily mean a place.
- The Market for a Commodity may be local, regional, national & International.
- Buyers are willing to buy & Sellers are willing to sell.

Perfect Competition - a large number of firms compete against each other for selling their product.

- The Degree of Competition is close to one
- The Market is highly Competitive.
- Price Determined by the Demand & Supply forces & firm has to accept

→ Leftwitzer, "Perfect Competition is a market in which there are many firms selling identical products with no firm large enough relative to the entire market to be able to influence market price."

Necessary Conditions / Characteristics of Perfect Competition

- Large No. of Small / ~~big~~ un-organized buyer & seller.
- Homogenous products. (Identical Product)
- Free Entry & Exit of firms.
- Perfect Knowledge among buyer & seller about market conditions.
- Absence of Collusion or artificial restraint. (Consumer association, Consumer forum)
- Perfect Mobility (Resources)
- Assumption of No transport Cost differences.

Distinction of Pure Competition - 4 Conditions are necessary

- large No. of Sellers & buyers
- Identical Products
- Free Entry & Exit of firms
- Absence of selling cost.

a few cases, e.g., occasional phases in share and property markets, the number of buyers is larger than the number of sellers. The number of sellers of a product in a market determines the *nature and degree of competition* in the market. The nature and degree of competition make the *structure of the market*. Depending on the number of sellers and the degree of competition, the market structure is broadly classified as given in Table 13.1.

✓ Table 13.1 Types of Market Structures

Market structure	No. of firms and degree of production differentiation	Nature of industry where prevalent	Control over price	Method of marketing
1. Perfect Competition	Large no. of firms with homogenous products	Financial markets and some farm products	None	Market exchange or auction
2. Imperfect Competition:				
(a) Monopolistic competition	Many firms with real or perceived product differentiation	Manufacturing: tea, toothpastes, TV sets, shoes, refrigerators, etc.	Some	Competitive advertising, quality rivalry
(b) Oligopoly	Little or no product differentiation	Aluminium, steel, cigarettes, cars, passenger cars, etc.	Some	Competitive, advertising, quality rivalry
(c) Monopoly	A single producer, without close substitute	Public utilities: Telephones, Electricity, etc.	Considerable but usually regulated	Promotional advertising if supply is large

Source: Samuelson, P.A. and W.D. Nordhaus, *Economics*, McGraw-Hill, 15th Edn., 1995, p. 152.

13.3 Market Structure and Pricing Decisions

The market structure determines a firm's power to fix the price of its product a great deal. The degree of competition determines a firm's degree of freedom in determining the price of its product. The degree of freedom implies the extent to which a firm is free or independent of the rival firms in taking its own pricing decisions. Depending on the market structure, the degree of competition varies between zero and one. And, a firm's discretion or the degree of freedom in setting the price for its product varies between one and none in the reverse order of the degree of competition. As a matter of rule, the higher the degree of competition, the lower the firm's degree of freedom in pricing decision and control over the price of its own product and vice versa. Let us now see how the degree of competition affects pricing decisions in different kinds of market structures.