

# Chapter 7

## Market Structures

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### Sec. 1 Perfect Competition

# Perfect Competition

**Michigan**

**Ohio State**



- Many buyers and sellers participate in the market
- Sellers offer identical products
- Buyers and sellers are well informed about products
- Sellers are able to enter and exit the market freely





# Easy Entry and Exit



- What is popular now is not necessarily popular in 5 years.
- Ex. WWII in need of lots of military supplies and weapons
- Companies jump in and jump out



# Imperfect Competition



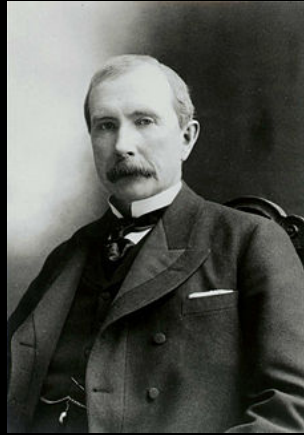
- Barriers to entry
  - Start-up costs
  - Technology





Sec. 7.2

# Characteristics of Monopolies



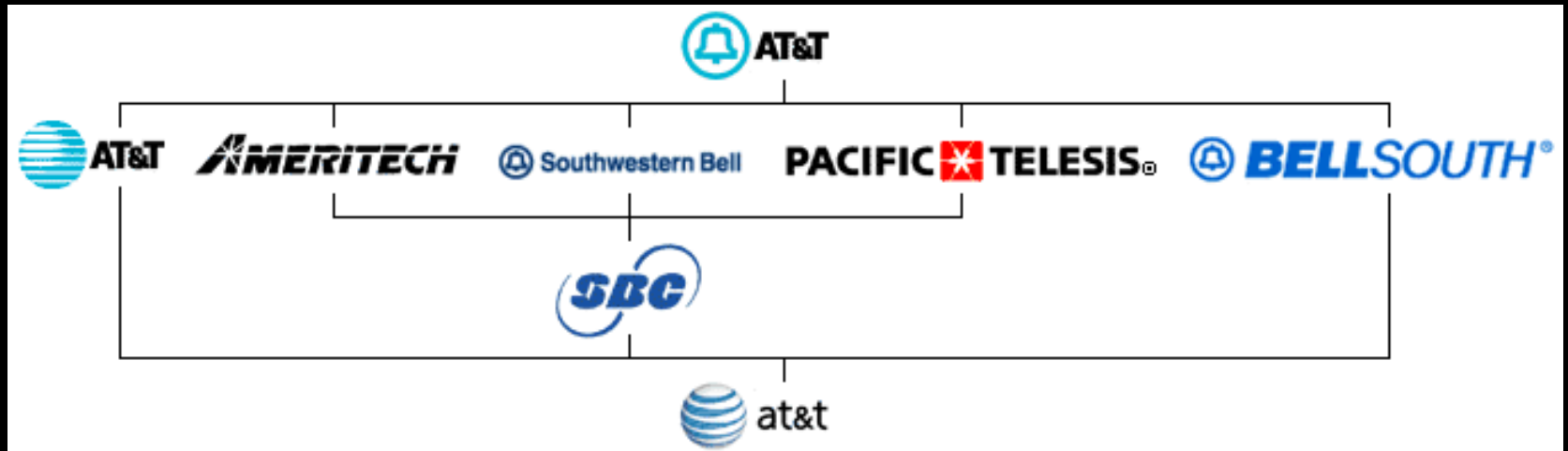
- Single seller in a market
- Often barriers to entry
- Do monopolies still exist today?





- United States v. Microsoft
- August 27, 1998 deposition
- Violations of the Sherman anti-trust act

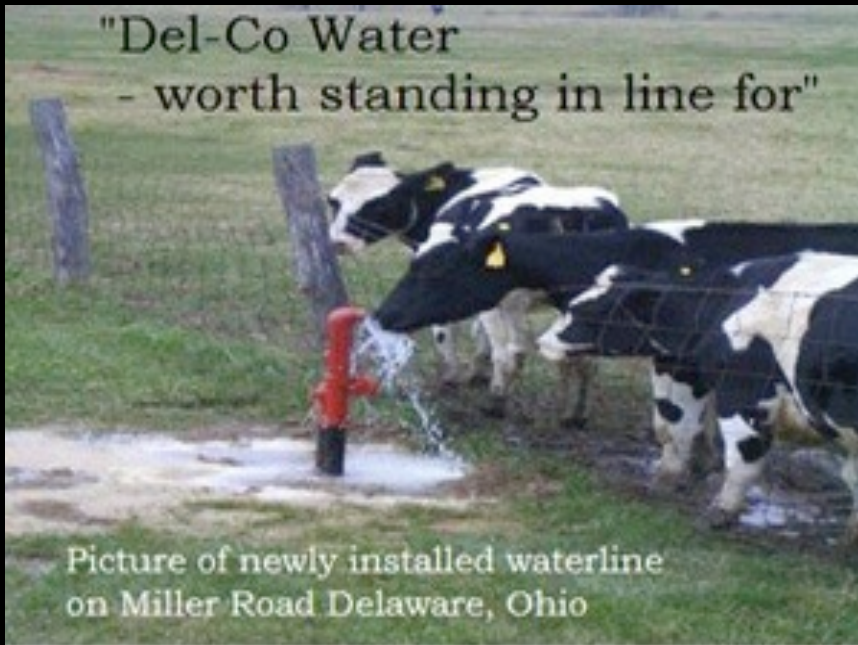
# American Telephone & Telegraph



- 1983 antitrust action
- Reformed in 2005
- Is this inconsistent?

# Natural Monopoly

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- Market runs most efficiently when one large firm provides all of the output
- Ex. Water companies
- Government allows in certain cases
- Technology can effect
  - Harder to establish
    - Microsoft regulated
  - Can break them down
    - Ex. AT&T

# Governmental Monopolies



- Can allow them to form and then regulates them
- Or the gov't can create monopolies
  - Patent
    - (ex. Pharmaceuticals)
  - Franchise
    - (ex. Coke and Disney)
  - License
    - (ex. Over scarce resources such as land)
  - Industrial Orgs.
    - (ex. MLB)



# Price Discrimination

seniordiscounts  
It's what you deserve.

- Charge different customers different prices
  - Discounted airline fares
  - Manufacturers' rebate offers
  - Senior citizens and student discounts
  - Children fly or stay free promotions
- Market Power
  - Ability to control prices and total market output

The image displays two forms related to price discrimination. The top form is a coupon for Office Depot, offering a \$1699.99 Mail-In Savings. It includes a form for a check payment, an Office Depot logo, and a list of participating products. The bottom form is a Microsoft rebate form, featuring a large 'REBATE UP TO \$10 US' banner. It contains a list of rebate-eligible products, a section for providing contact information, and a section for providing a receipt. The Microsoft logo is visible at the bottom right of the form.

# Limits to Price Discrimination

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- Need some market power
- Need distinct consumer groups
- Need to be difficult resale

# Monopolistic Competition and Oligopoly

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Section 7.3

# Monopolistic Competition

## ■ Conditions

- Many firms
- Few artificial barriers to entry
- Slight control over price
- Differentiated products
  - Main difference b/w perfect



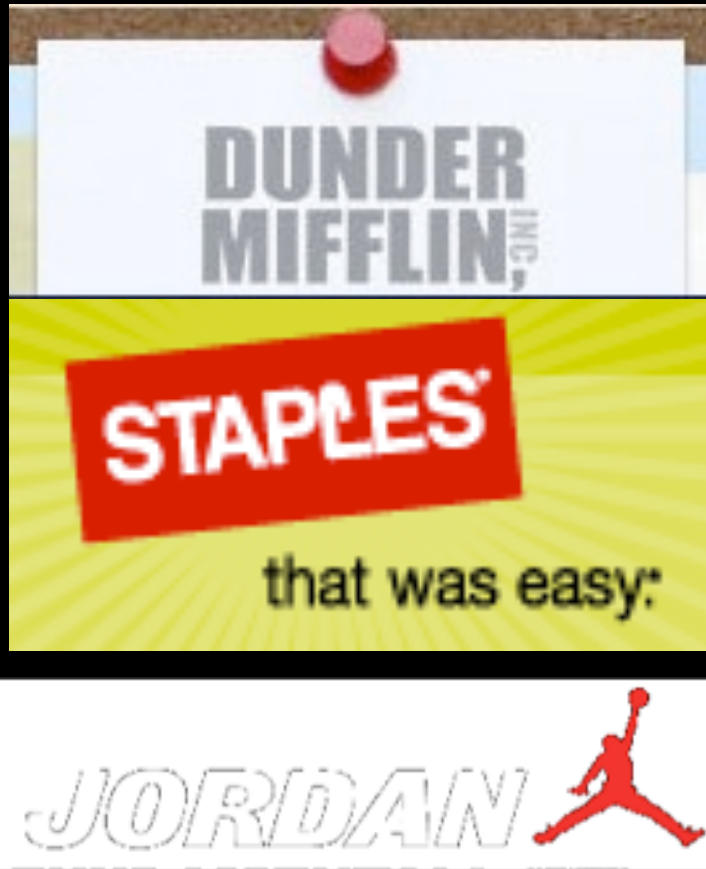
**It's better with the spray!**  
Pick up more dust with the Pledge® Duster Plus®!

[See how it works >](#)

The advertisement for Pledge Duster Plus features a green and white color scheme. It shows a hand holding a white duster head over a green surface. The text is bold and clear, emphasizing the product's effectiveness. A link is provided to see how it works.

# Nonprice Competition

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- Physical characteristics
- Location
- Service level
- Advertising, image or status

# Price, Output, and Production

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## ■ Prices

- Prices will be higher than they would be in perfect competition, because firms have a small amount of power to raise prices.

## ■ Profits

- While monopolistically competitive firms can earn profits in the short run, they have to work hard to keep their product distinct enough to stay ahead of their rivals.

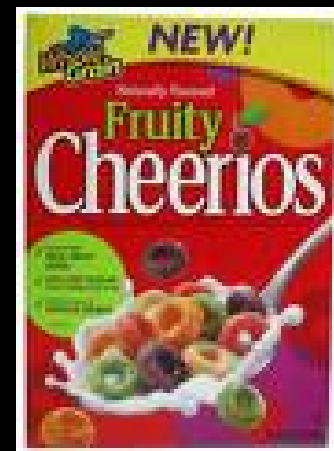
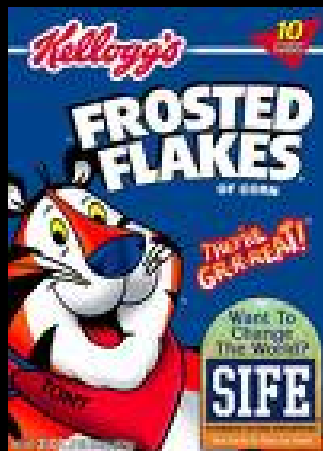
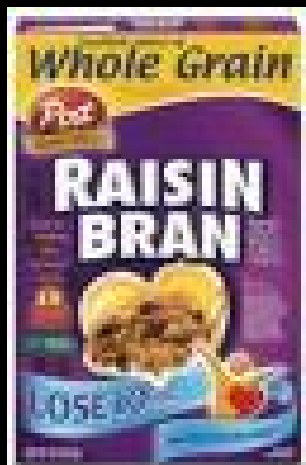
## ■ Costs and Variety

- Monopolistically competitive firms cannot produce at the lowest average price due to the number of firms in the market. They do, however, offer a wide array of goods and services to consumers.

# Oligopoly

- Market dominated by a few large, profitable firms

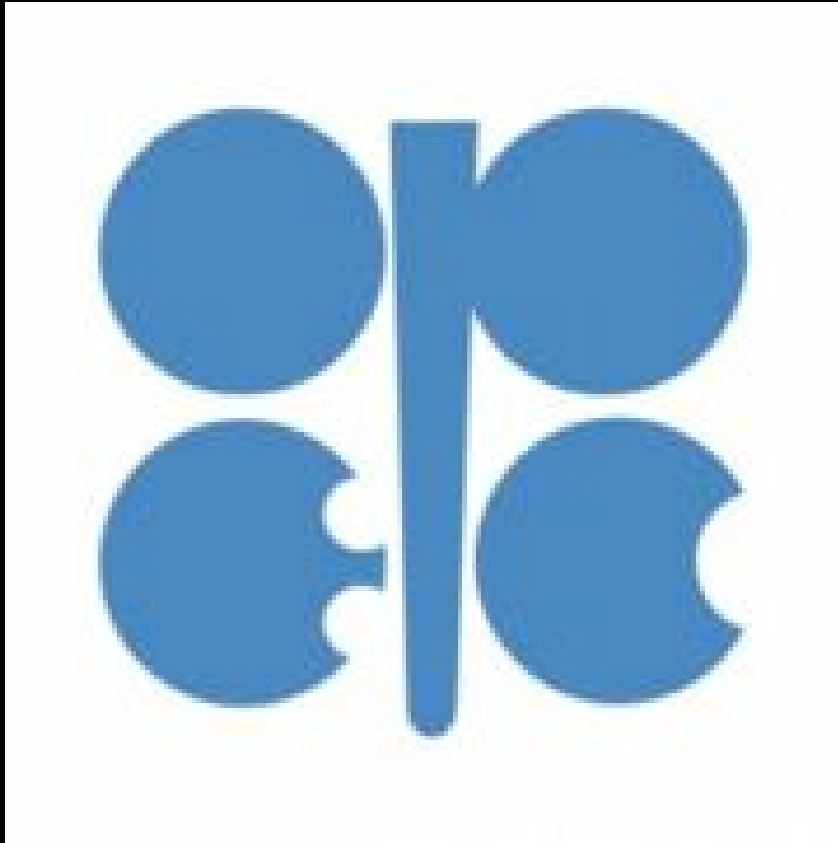
Post, Kellogg's, General Mills



Nike, Reebok, Adidas

# Oligopoly

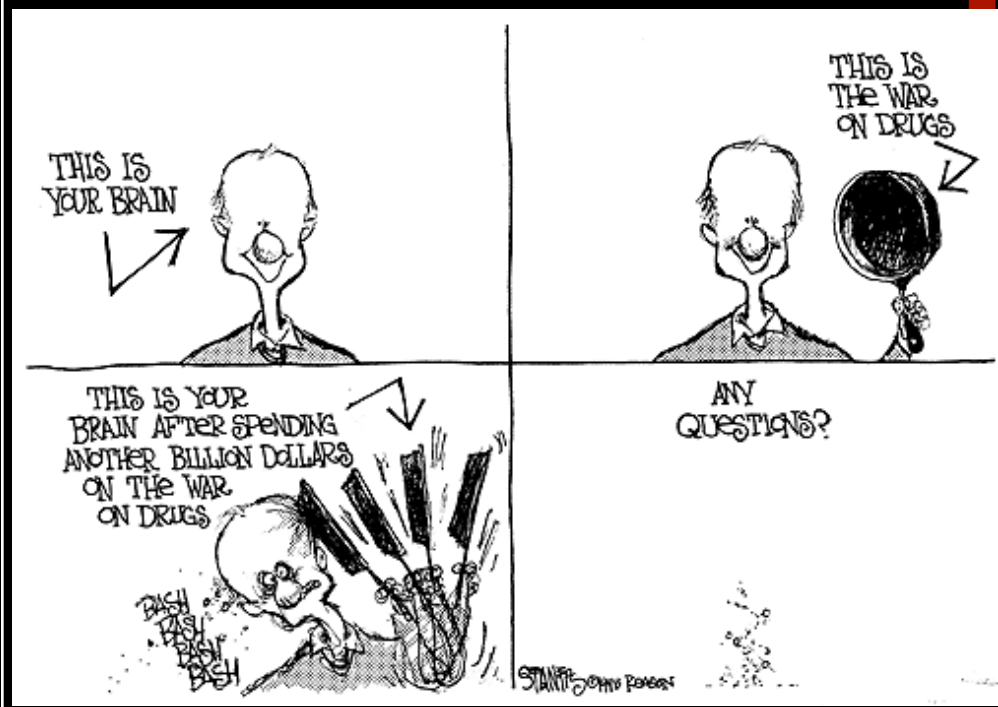
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- Barriers to Entry
- Cooperation and Collusion
  - Price war
  - Price fixing
- Cartels
  - Ex. OPEC
  - Ex. Drug cartels

# Columbian Drug Cartels

## Cali and Medellin Cartels



Can be highly sophisticated: submarine, lawyers, cell networks

More than 300 active drug smuggling organizations in Colombia today. Cocaine is shipped to every industrialized nation in the world and profits remain incredibly high.