CHAPTER 7 TYPES OF MARKET STRUCTURES WORKSHEET

Types of Markets: Perfect Competition, Monopolistic Competition, Oligopoly, Monopoly

USE THE ATTACHED NOTES TO ANSWER THE FOLLOWING QUESTIONS.

1.) List the four different types of market structures. (List below)

1. ______________________________________
2. ______________________________________
3. ______________________________________
4. ______________________________________

2.) True or False: Patents and trademarks are barriers to entry. (circle one) TRUE FALSE

3.) What market structure out of the four contains elements of both monopoly and a little competition? (Circle one)

P.C. M.C. OLI. MONO.

4.) What does antitrust law prohibit? (Answer below)

5.) Economies of Scale is the concept that larger companies can produce products at lower costs per unit than small companies. What market structure out of the four does not contain businesses that benefit from economies of scale? (Circle one)

P.C. M.C. OLI. MONO.

6.) Give TWO characteristics of a Perfect Competition market. (Answer below)

7.) Give TWO characteristics of a Monopolistic Competition market. (Answer below)

8.) What real world industry/business is most closely related to a perfectly competitive market? (Answer below)

9.) A minimum price is an example of a …(circle one) PRICING FLOOR PRICING CEILING

10.) In which of the four markets would consumers need the protection offered by price ceilings? (Circle one)

P.C. M.C. OLI. MONO.
11.) Electric providers in the south (like the Tennessee Valley Authority) are examples of what type of specific monopoly type? *(Answer below)*

12.) A _______________ is a group of firms that agree to act as a single monopoly to increase the market price and maximize the groups’ profit. *(Circle one)*

   P.C.       M.C.       OLI.       MONO.

13.) Why are oligopolies so dangerous to consumers? *(Answer below)*

14.) Out of the four market structures in which of them are firms the most wasteful and inefficient? *(circle one)*

   P.C.       M.C.       OLI.       MONO.

15.) At a price of $2.00 the quantity demanded is 16 items, but the quantity supplied is 4 items. Is this price above or below the market equilibrium price? *(circle one)*

   ABOVE       BELOW

16.) In a **perfect competition** market structure most goods would have ______________ demand. *(circle one)*

   ELASTIC   INELASTIC

17.) In a **monopoly** market structure most goods would have ______________ demand. *(circle one)*

   ELASTIC   INELASTIC

18.) Businesses within a ______________________ market cannot make their products different. In other words, all businesses have a difficult time making their products unique from the other competing businesses. *(circle one)*

   P.C.       M.C.       OLI.       MONO.

19.) What type of merger would it be if Apple and Microsoft came together? *(circle one)*

   VERTICAL       HORIZONTAL       CONGLOMERATE
I. Perfectly Competitive Market Structure (P.C.):
- **Infinite** number of **very small** firms. *(No single seller can influence the price because NO ONE firm owns a large percent of the market.)*
- Since each firm is small, no firm benefits from economies of scale.
- Buyers and sellers deal in **identical** products. *(EXAMPLES: Salt, Flour, Wheat, Corn)*
- **Unlimited Competition:** so many firms, that suppliers lose the ability to set their own price.
- **No Barriers to Entry.** Sellers are free to enter the market, conduct business and free to leave the market. *(Low cost to enter)*
- Each firm is a **price-taker** *(each business in the market has to be content with the current price of the product they are selling)*
- No firm in this market has any **market power.** *(Market Power Defined: ability to set one’s own prices for a product)*

II. Oligopoly Market Structure:
- **3-4 firms** that control the entire market by setting prices.
- Products are generally identical (standardized)
- **High Barriers to Entry:** Hard to enter the market because the competitors work together to control all the resources & prices.
- The actions of one firm in the oligopoly, affects all the other firms.
- Market contains **collusion** *(price fixing)* which is an agreement between firms to act together or behave in a cooperative manner. This is similar to how drug **cartels** operate.
- Oligopolies are the **most dangerous** to consumers since they are not as easily recognized by government regulations *(anti-trust laws)* since they are technically not a monopoly.
III. Monopolistic Competitive Market Structure (M.C.):
- Large number of large companies. (but fewer firms than perfect competition)
- Sellers can influence the price through creating a product identity.
- Products are not exactly identical, but are very similar, so companies use product differentiation. (marketing using color, logo, brand names, etc.)
  - Firms in a M.C. generally do not mention price in their advertisement. Instead they note all the products features. This is called non-price competition.
- Heavy Competition: Firms must remain aware of their competitor’s actions, but they each have some ability to control their own prices.
- Low Barriers to Entry: easier than Oligopoly and Monopoly to get started because of the less amount of competition. (Monopolistic competition takes its name and its structure from elements of monopoly and perfect competition.)
- Firms in a M.C. generally are too large to completely fail. Instead they merge with other firms. There are 3 different types of mergers:
  1. Vertical Merger: firms looking to save on costs will merge with a resource provider (example: McDonalds buys a paper cup manufacture or a cattle ranch; Ford buys a steel manufacture)
  2. Horizontal Merger: firms in competing industries buy each other in order to dominate one single industry (example: McDonalds buys Wendys; Nissan buys Honda)
  3. Conglomerate: firms in unrelated industries buy each other in order to offer a diversified set of products (example: Procter & Gamble who produces everything from shampoo, to dog food, to coffee, to Duracell batteries)

IV. Monopoly Market Structure (Mono):
- There is a single seller.
- No substitute goods are available. Thus this market contains only inelastic demand.
- The firm is a price-maker. (set their own price for a product). Consumers often need the protection offered by price ceilings in a monopoly market.
- High Barriers to Entry: it is impossible for new businesses to enter into this market
- Monopolies are very wasteful and inefficient since there is no competitive pressure on them to reduce costs.
- Monopolies are regulated by the Federal Government through anti-trust laws. However there are 4 types of monopolies that exist in America:
  1. Natural Monopoly: because the monopoly’s large size, it benefits from economies of scale, thus the government allows the monopoly to operate since it is cheaper than allowing competition. (example: Tennessee Valley Authority (TVA) provides power to much of the south, it is too expensive for another electric provider to compete with the TVA, thus the government allow the TVA to continue to operate as a monopoly)
  2. Technological Monopoly: firms that request patents and trademarks cannot have their products duplicated by any other competing firm, thus they are protected monopolies (example: Microsoft’s copyright protect on its products; Apple’s patents of the design of all its products)
  3. Government Monopoly: government controlled business (example: county water provider, sale of nuclear material, Canadian healthcare system (ran by the Canadian government)