**Subject Area:** Economics

**Level:** CSEC and CAPE

**Curriculum Topic:** Market Structure

CSEC Economics Section 4 Objectives 1, 2

CAPE Economics Unit 1 Module 2 Objectives 4, 5, 6

**Key teaching points:**

* Define the term market structure
* Describe the main types of market structures

**Activity 1**

Read and study the following information on Market Structures.

**Definition**

Market Structure refers to the behaviour and performance of firms in a variety of situations. This behaviour and performance depends on

1. Number of buyers and sellers
2. Types of goods
3. Freedom of entry and exit and
4. Control on price

Also consult:

<https://en.wikipedia.org/wiki/Market_structure>

https://www.tutor2u.net/economics/reference/key-summary-on-market-structures

<https://quickonomics.com/market-structures>

**Main types of Market Structures**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Characteristics** | **Perfect Competition** | **Monopolistic Competition** | **Oligopoly** | **Monopoly** |
| **Number of buyers and sellers** | Large number of buyers and sellers | Many buyers and sellers | Few sellers | A single firm supplies the good or service |
| **Types of goods** | Identical or homogenous product that is a perfect substitute | Differentiated/branded products that are not perfect substitutes | Product may be homogenous or differentiated | Sole supplier – only one product |
| **Information availability** | Buyers have complete or perfect information about product | Buyers and sellers do not have perfect information | Sellers have perfect knowledge of their own costs. Buyers have imperfect knowledge of price, cost and product quality. | Imperfect information |
| **Freedom of entry and exit** | Firms can enter or exit market easily | Few barriers to entry and exit | High barriers to entry | High barriers to entry |
| **Control over price** | All firms are price takers since they have no influence on the market price of the good | Little control over price | Price leader - any changes to price are immediately followed by competitors. | Price setter |
| **Long run profit making** | Earns normal profit | Earns normal profit | Earns surplus profits | Earns surplus profits |
| **Examples** | Farmers’ market | Restaurants, suppliers of cleaning products | Commercial banks, video game platforms | Public Utilities |

**Advantages and Disadvantages of each market structure**

|  |  |  |
| --- | --- | --- |
| **Types of Competition** | **Advantages** | **Disadvantages** |
| **Perfect Competition** | 1. Lower price for consumers 2. High degree of competition leads to allocative (MC=AR) and productive efficiency (MC=AC) 3. Maximum consumer surplus and economic welfare | 1. Lack of product variety |
| **Monopolistic Competition** | 1. Differentiation allows for greater choice 2. Lots of innovation in products | 1. Differentiation can increase costs due to branding and packaging |
| **Oligopoly** | 1. Higher profits allow for more research and development | 1. Reduced consumer choice 2. Possibility of collusion among firms (cartels) |
| **Monopoly** | 1. High profits can allow for research and development 2. Can be regulated by government 3. Benefits from Economies of scale | 1. Higher price for consumers 2. Less choice for consumers 3. Allocative and productive inefficiency |

**Activity 2**

Test your knowledge by completing the following diagram.

**Activity 3**

Complete the following diagram by inserting the four types of competition starting with the type that has the highest degree of competition to the one with the lowest degree of competition.

**Activity 4**

Fill in the correct market structure for the characteristic identified.

**Activity 5**

Compare and contrast perfect competition with monopoly. Use at least 4 characteristics to make the comparison.

|  |  |  |
| --- | --- | --- |
| Characteristic | Perfect Competition | Monopoly |
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**Activity 6**

Evaluate the following and provide appropriate responses.

1. Manoj sells tomatoes at the corner of Hart Street. Shelly buys tomatoes from him occasionally as she can also get tomatoes in the market or by the vendor on King Street. In fact there are many other places she can get the same tomatoes.
2. Name the Market Structure \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
3. Provide a justification for your response \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
4. In Country A, electricity is provided by a single company. The government has allowed this for specific reasons.
5. Identify the Market Structure \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
6. Give two reasons why the government has allowed the existence of this market structure. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
7. There are five banks providing banking services in the country. Bank A reduced its lending rate in order to attract more borrowers. However, every other bank also immediately reduced their lending rate.
8. Name the Market Structure \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
9. State one advantage of this market structure \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
10. State one disadvantage of this market structure \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
11. The market for toothpaste has several suppliers. There are slight differences in price. Customers determine their preference mainly by which packaging or advertisement appeals to them most. The government has decided that the packaging costs are negatively impacting the price of the product and has introduced initiatives to have many more producers enter the market. They are hoping that producers will make a homogenous product.

a) Evaluate which market structures exist prior to and after government intervention.

Prior to\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

After intervention \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

b) Compare and Contrast the market structures identified in a). Use the following table as a guide.

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**Answer Key**

**Activity 2**

**Activity 3**

**Activity 4**

**Activity 5**

Compare and contrast perfect competition with monopoly. Use at least 4 characteristics to make the comparison.

|  |  |  |
| --- | --- | --- |
| Characteristic | Perfect Competition | Monopoly |
| **Number of buyers and sellers** | Large number of buyers and sellers | A single firm supplies the good or service |
| **Types of goods** | Identical or homogenous product that is a perfect substitute | Sole supplier – only one product |
| **Information availability** | Buyers have complete or perfect information about product | Imperfect information |
| **Freedom of entry and exit** | Firms can enter or exit market easily | High barriers to entry |
| **Control over price** | All firms are price takers since they have no influence on the market price of the good | Price setter |
| **Long run profit making** | Earns normal profit | Earns surplus profits |

**Activity 6**

1. a) Perfect Competition

b) Large number of buyers and sellers, homogenous product

1. a) Monopoly

b) Can benefit from economies of scale, high profits can allow for research and development

1. a) Oligopoly

b) Higher profits allow for more research and development.

c) Reduced consumer choice, possibility of collusion

1. a) Prior to – Monopolistic competition

After intervention – Perfect Competition

b)

|  |  |  |
| --- | --- | --- |
| Characteristic | Monopolistic Competition | Perfect Competition |
| **Number of buyers and sellers** | Differentiated/branded products that are not perfect substitutes | Large number of buyers and sellers |
| **Types of goods** | Buyers and sellers do not have perfect information | Identical or homogenous product that is a perfect substitute |
| **Information availability** | Few barriers to entry and exit | Buyers have complete or perfect information about product |
| **Freedom of entry and exit** | Little control over price | Firms can enter or exit market easily |
| **Control over price** | Earns normal profit | All firms are price takers since they have no influence on the market price of the good |
| **Long run profit making** |  | Earns normal profit |