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Analysis of Market Structure: Perfect Competition An monopoly

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ABSTRACT

According to Adam smith market mechanism is the best way to generate efficiency. Market structure is a device to analyse the market situation for theory developers and rational consumer and producers. Mainly markets are categoryby three characteristics as number size and size distribution of sellers and buyers. In this paper we analysed market structure and differentiate between them on the basis of their e characteristics. Advantages and disadvantages also discussed with an example.

Key-Words:- Marker structure, Competition, Perfect Competition, Homogeneous, Monopoly.

INTRODUCTION

One of the objective of industries to understand the environment of the structure of economy. Market structure mainly decided by number of firms, nature of product and information to customer. These factor decide firm efficiency and marker performance. Market structure forms are cauterised into four parts: Perfect competition, Monopoly, Monopolistic competition and Oligopoly. The difference between these markets are decided by size of firms, number of buyer and sellers, information of products, natural monopoly, product differentiation. In a perfect competition, marker structure, there is a large number of buyers and sellers, homogeneous product, full information about product, firm is price taker. On the another hand, monopoly is totally opposite to perfect competition. In monopoly market structure only one seller maintain its monopoly on market. This monopoly could be created by natural monopoly, dumping, price differentiation etc.

OBJECTIVES
1: Clear and analysis the two market structurecomparatively.
2: Differentiate two marker structure to have a better understanding of firms behaviour in the market.

1-**Perfect competition market**
In economic theory, perfect competition occurs when all companies sell identical products it is a market that is entirely influenced by market forces. It is the opposite of imperfect competition. For example Consider a farmers market where each vendor sells the same type of jam

Perfect competition market has many characteristics such as:-
: 1- **Large number of sellers and buyers:**
If the number of buyers and sellers are very small they can exploit consumers. There are large number of buyers and sellers, thus the supply of individual seller is very small that will not make changes in total price.

2- **Free exit and entry of firms** - firms are free to entre in the market or leave themarket.If a firm can not recover its marginalcost, then it leave the ma3ket,and a firm can produce on low cost then it entre to the market. So long run profit for all firms will be normal profit.

3- **identical Product:**
All the firms produce a homogeneous product and sell it so that the buyer can choose any product from any seller, the individual can buy any product he prefers from many firms.

4- **maximization of profit:**
The main goal of any firm that maximize its profits, In perfect competition earn only normal profit in long run, because of the characteristicsof this market. To maximize the profit the firms set (MR=MC) marginal revenue equal marginal cost.

5- **pricing decision:**
The price in this market is determined by the markets power, therefore the seller in this market are price taker, they have to accept the market price. When any firm rise the price of its product, buyers will not demand for there goods. So price will determine by the demand and supply of market forces.

6- **Perfect Knowledge of Market Conditions:**
Buyers and sellers must have full information about market conditions, and the prices of products in thus market, because the product is identical.

7- **Absence of transport costs:**
Because of the the identical product and large number of sellers product is mostly available everywhere. So no need to transport the goods and it will make a huge difference in price.

Price determination of firm in long run in perfect competition-

Price #1
The price in the market is below the optimum cost of the firm (OP_0). From this cost, we get a corresponding average revenue of AR_0 and Marginal Revenue of MR_0. As you can see in the figure, MR_0 cuts the LMC curve at two points – E and E_0. However, none of these points is the long-run equilibrium of the firm. At point 'E', the LMC curve cuts the MR_0 curve from above while at point E_0, it cuts the curve from below. But, since $AR_0 < LAC$, the firm incurs losses.

Price #2
The price of the firm's product is more than the optimum cost or the least possible average cost of the firm. In such cases, the firm is not in a state of stable equilibrium. If this price is OP_2 with the average revenue curve AR_2 and the marginal revenue curve MR_2, then we can see that

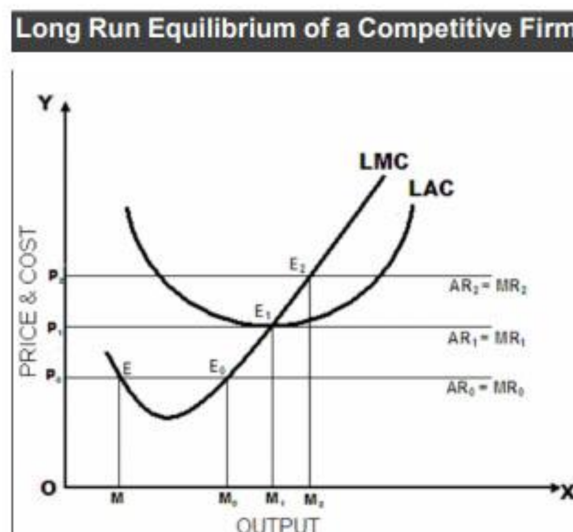
1- The LMC curve intersects the MR_2 curve from below at point E_2
2- $AR_2 > LAC$

This means that the firm is enjoying super-normal profits. However, this attracts new firms to the industry which increases the supply and the price falls until no firm can earn super-normal profits.

Price #3
The price of the firm's product is equal to its optimum cost of production. If this price is OP1 with the average revenue curve AR_1 and the marginal revenue curve MR_1, then we can see that

1.) The MR_1 curve cuts the LMC curve from below at the lowest point E_1
2.) $AR_1 = LAC$

Therefore, the firm neither incurs a loss nor earn a super-normal profit. Therefore, there is no incentive for the existing firms to leave the market or new ones to join it. Also, the corresponding equilibrium output is OM_1.



Monopoly:
The word monopoly Consist of two words: mono- one poly – sell, monopoly means one seller in market. There are many types of monopoly such as simple monopoly, pure monopoly, natural monopoly, and we are going to define the

most common types of monopoly. Pure monopoly market is a market with only one seller (supplier) of a particular product, in this market itself becomes the industry, but pure
monopoly is not found in the real world. A monopoly is a market structure where a single seller or producer assumes a dominant position in an industry or a sector. Monopolies are discouraged in free market economies as they stifle competition and limit consumer substitutes.

Characteristics of monopoly-:

[1]. **Barriers to entry:**
Monopolist create barriers to other producers so that they cannot entre into the market. The barriers could be anything as natural monopoly, price discrimination,dumping etc.

[2]. **Profits**:
As we formally know, maximizing the profits happens when MR=MC, maximization the profit depends upon the degree of competition in general, and in the case of pure monopoly there is no competition. Monopolist earn supernormal profit by discrimination in price.

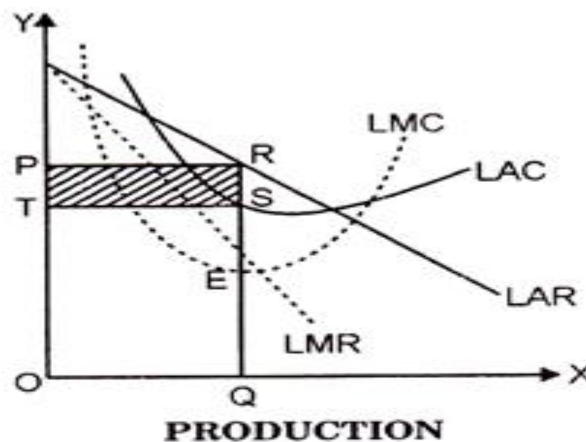
[3]. **Pricing decision:**
The monopolists are able to decide the price of their product due to holding on the power of the market, which making them able to be the price maker. A negative downward demand curve show that seller sell more quantity on less price.

[4]. **Lack of substitutes:**
Under the monopoly market structure, it's one firm that has control over the market and sell only one product in the market which have no substitution.

[5]. **Elasticity**:
The producer has full control over his supply; hence the elasticity of demand is zero means quantity demanded will not change after change in price.

Price determination of firm in monopoly market
Long-run is the period in which output can be changed by changing the factors of production. In other words, all variable factors can be changed and monopolist would choose that plant size which is most appropriate for specific level of demand. Here, equilibrium would be attained at that level of output where the long-run marginal cost cuts marginal revenue curve from below.

This can be shown in the below figure–



As we can seein this figure profit= LAR> LAC Here producer earn supernormal profit.

CONCLUSION

In conclusion of this research paper we are able to differentiated the Two market structures, aware of their main characteristics, and examples, and we can analyse how firms behave under each one, in the following table we made a brief comparison between the two structures.

REFERENCES

Features	Monopoly	Perfect Competition
1. Description	Extreme market situation, where there is only one seller. He has no competition and so controls supply and price.	A fair, direct competition between buyers and buyers : sellers and sellers ; and finally between buyers and sellers.
2. Buyers and sellers	Only one seller and practically all buyers depend on him. Hence he has absolute control over the market.	Large number or buyers and sellers. hence no sellers or buyers can alter the price in the market.
3. Supply	Supply from only one seller, hence absolute control over the supply.	(*i*) Supply comes from large number of sellers (*ii*) individual supply is negligible.
4. Demand	Demand is inelastic. Demand curve slopes downward.	Demand is perfectly elastic. Demand curve is a horizontal straight line.
5. Product	Homogeneous product.	Homogeneous product.
6. Nature of Competition	No competition at all.No price or product competititon.	Pure and perfect competition in price.
7. Price	Higher price higher than all competitive price P > MR = MC	Normal Price P = MR = MC
8. Output	Small output fixed by the sole seller.	Large output fixed by MR = MC
9. Profit	Excess profit monopoly gain.	Normal profit realised by price competition.
10. Application	Pure Monopoly is rare but elements of monopoly are there in markets.	Quite unreal

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