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Introduction

In this project, we are going to discuss and evaluate the four most common market structures today - Perfect Competition, Oligopoly, Monopolistic (Imperfect) Competition and Monopoly.

We will evaluate each market structure under different headings, in order to breakdown the information into a more accessible format.

Our aim for this project is to learn more about market structures, teamwork and hopefully help others to study this area of economics.

PERFECT COMPETITION

"A market structure where competition is at its greatest possible level"- The economic times

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Characteristics:

Goods are Homogenous:

All goods on a perfectly competitive market are identical.

They can be easily substituted and so they are called perfect substitutes.

Due to these goods being perfect substitutes the firm does not engage in competitive advertising

There is a large number of buyers and sellers:

There are many buyers and no one individual can influence the selling price of the good.

The sellers in this market are price takers. This means the market sets price where supply equals demand.

Free entry and exit into industry:

There are no barriers to entry in this market meaning firms are free to enter and leave the market as they wish.

Perfect knowledge of market:

Perfect knowledge exists in this market meaning that consumers are fully aware of the prices being charged by suppliers and firms are aware of the profit levels being made by other firms in the industry

Demand curve of a firm under perfect competition

Firms in a perfectly competitive market have a perfectly elastic demand curve. This means that if a firm increases price all other firms will leave their prices the same and due to the goods being homogenous consumers will switch to the cheaper substitutes causing demand for the firms goods to fall to zero

Advantages:

No Advertising:

As the goods in this market are homogenous firms do not engage in competitive advertising. This in turn means no resources are wasted on advertising and there is no extra cost borne by the consumer as a result of advertising.

Consumers are not exploited:

Due to the firm earning normal profits consumers are not being exploited as they are being charged the minimum price possible.

Efficiency Encouraged:

Only those firms who are efficient will survive in the long run. Firms in the industry produce on the lowest point on the AC curve which is the point of maximum efficiency.

Why Firms in Perfect Competition Don’t Engage in Advertising

Goods are Homogenous:

- All goods produced are identical and are perfect substitutes and so each individual firm cannot differentiate their product and so there would be no benefit to advertising as differences cannot be created in the mind of the consumer

Increase in Production Costs:

- The cost involved in the advertising of goods reduces the profits earned by firms under perfect competition and this advertising will not yeild any extra revenue due to the goods being homogenous and advertising being pointless in the market.

Benefits Entire Industry:

- As the goods are homogenous if one firm were to invest in advertising all other firms in the market would also benefit and the cost would be borne by one producer only.

Generic advertising

As outlined in the previous slide firms under perfect competition do not engage in competitive advertising however firms do engage in what is known as generic advertising.
The aim is to not just promote one firm or brand in the industry but rather to promote the industry as a whole in the hope of raising aggregate demand in the industry.
An example of this was when Irish rugby star Paul O'Conell campaigned and advertised for the National Dairy Council. The aim here was to increase demand for dairy and not one brand of dairy in particular.