Understanding market competition part 1

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Introduction

To comprehend market competition, first, divide the word "market competition" into two terms and learn about each of them separately. A market is a gathering place for two or more persons to exchange commodities, services, or any other type of information.

In general, a market is a location where sellers trade money for their goods and services. The market might differ depending on the products or services supplied and other considerations such as government regulation, taxes, currency legality, pricing ceilings, buyer targets, and so on. The most basic definition of the word competition is when two or more parties compete for a competitive advantage or defeat one another.

When one party wins in a competition, the other inevitably loses. We may derive from studying the terms market and competition when two or more enterprises or organisations compete for profit utilising diverse techniques.

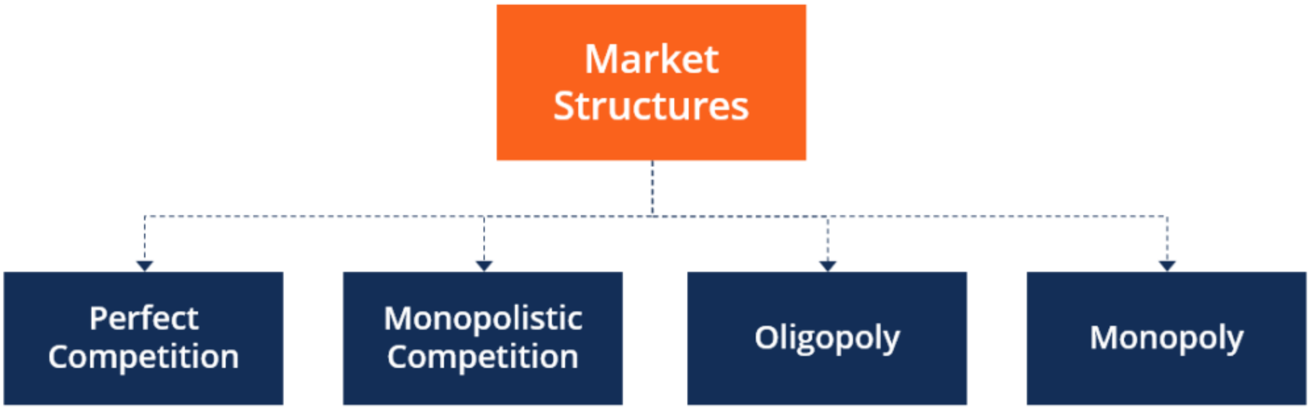
Market competition can take many different forms. Many companies, for example, sell products that are a close alternative but not a perfect substitute in a monopolistic rivalry market.

Companies in this sort of market competition aim to acquire a competitive advantage over their competitors by offering a wide range of items of high quality, as well as using advertising and other marketing methods.

There are four basic types of market competition, each with its own set of characteristics. You will learn about the many kinds of market rivalry and the characteristics of each market competition system in this post.

Different types of market competition

There are four types of market competition, and they are sometimes referred to as market structures. In economics, market structure refers to how different industries are classed and distinguished based on the degree and form of products and service competition. It's based on the features that influence the behaviour and outcomes of businesses in a certain market.



1. Monopoly

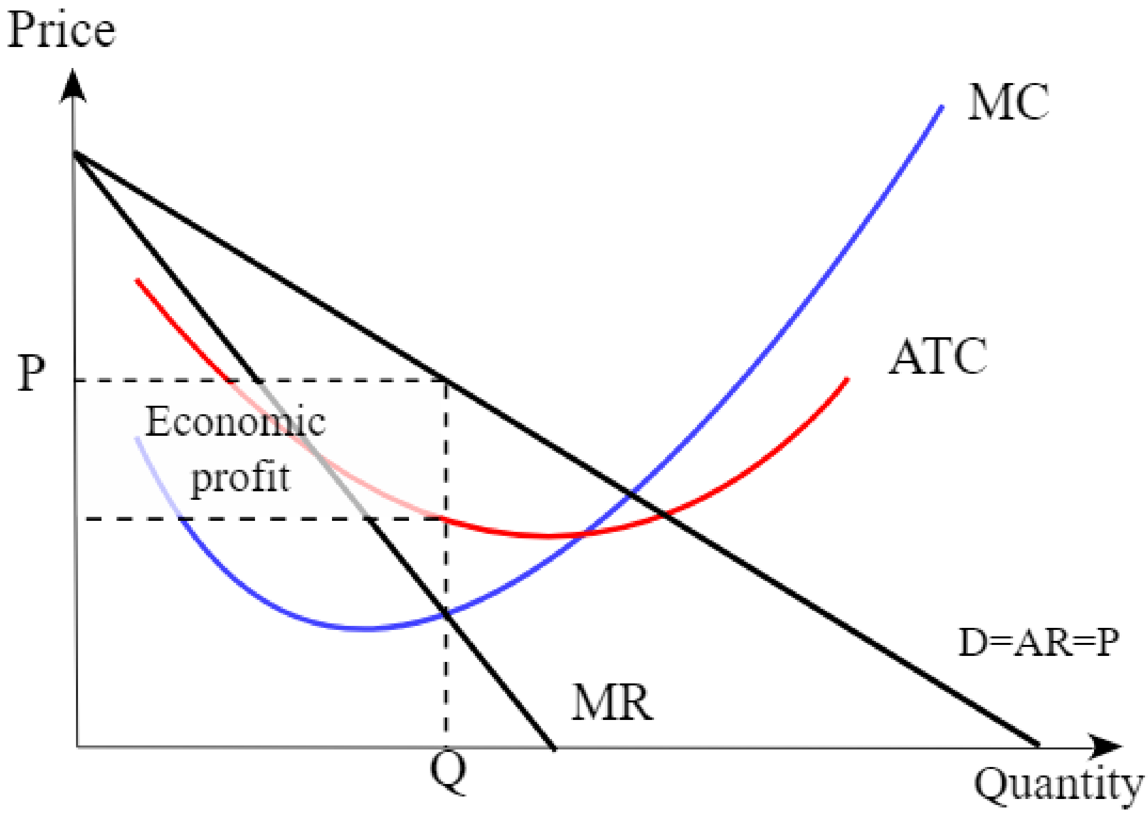
When there is just one seller in a market, it is called a monopoly. The corporation is in charge of an entire industry or sector. In capitalist economies, a monopoly exists when the government does not influence the business transactions of enterprises. One corporation or a group of people obtains control of the entire market in such instances.

All items, suppliers, infrastructure, commodities, and assets associated with a particular service or product are under the corporation's ownership. Monopoly markets are an extremely undesirable market structure. If a corporation has a monopoly in a market, it can charge whatever price it wants for the goods or services it provides because no one can stop it.

Monopolies have a competitive advantage over their rivals since they are either the only provider of the product or control the entire market or the largest share of it. Because of the high barrier to entry, it isn't easy to enter a monopoly market. Because of the following two probable reasons, a monopoly corporation can expand its market power.

1. It has obtained the product or service's patent.
2. The government has given the corporation permission to deliver specific services.

How pricing and output are determined in a monopoly situation



P = Price

Q = Quantity

MR = Marginal Revenue

ATC = Average Total Cost

MC = Marginal Revenue

Takeaway points

- By default, a monopoly earns supernormal profits.
- To maximise profit, the firm will produce where Demand intersects Average Revenue and Price (D =AR =P).
- The firm has to produce at the point of minimum average total costs (ATC) to maximise revenue.
- To maximise output, the firm has to produce at the point of intersection between average total cost (ATC) and Demand.
- To minimise welfare loss, a monopoly produces when marginal cost is equal to Demand (MC = D).

Monopoly market competition is unfavourable because the monopoly corporation has complete control over the product's price. Because there are no local competitors, there is no one to keep an eye on the company's price.

As a result, monopoly products are typically sold at a greater price than their actual prices. In a monopoly competition market, small competitors have a hard time surviving. The monopoly has good relations with the suppliers because it is the oldest and most potent (financially) player in the market.

As a result, they can buy raw materials in bulk and keep them for longer periods. They frequently buy a large quantity of supplies at a low cost, which is not viable for small businesses.

As a result, monopolies can launch a pricing war to reclaim their customers. They can reduce production costs to such an extent that a tiny competitor will be unable to compete. The government creates policies to ensure that no corporation can develop a monopoly and that each rival has a fair portion of the market.

Market structures can be well understood in economics by evaluating various aspects or characteristics displayed by different players. The following seven key characteristics are commonly used to distinguish these marketplaces. The industry's buyer structure, the turnover of customers, the extent of product differentiation, the nature of costs of inputs, the number of players in the market, vertical integration extent in the same industry and the most significant player's market share to mention but a few.

The second part of this article will be focusing on perfect competition.

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