Monopolistic Competition and Oligopoly

Monopolistic Competition

- A market structure in which many companies sell products that are similar but not identical

Four conditions of Monopolistic Competition

- Many Firms
  - Firms can start selling goods and earning money after a small initial investment. So, new firms spring up quickly to join the market. (pizza joints in town)
- Few Artificial Barriers To Entry
  - Patents do not protect anyone because they have expired or because everyone sells something that is just unique enough.

Four conditions of Monopolistic Competition

- Slight Control Over Price
  - Consumers will buy a competitors product if it is slightly more. (Little Caesars vs. Pizza Hut)
- Differentiated Products
  - Making small differences in a product in order to charge more

Differentiation

- Making a product different from other similar products

Nonprice Competition

- A way to attract customers through style service, or location, but not a lower price.

Forms of nonprice competition

1. Physical Characteristics – offer a new size, color, shape, texture, or taste. (Shoes, phones, toothpaste)
2. Location – Location, location, location (gas stations, movie theatres, restaurants)
3. Service Level – The higher level of service costs more! (White Castle vs. Troppo)
4. Advertising, Image, or Status – Uggs vs. the ones you can get from Target for a hundred dollars less even though they are the same!

Oligopoly

- A market structure in which a few large firms dominate a market.
- NCG vs. Celebration
- Bigbee vs. Starbucks

Price War

- A series of competitive price cuts that lowers the market price below the cost of production.
- A price war is harmful to producers but good for consumers.

Collusion – (Come Collude with Me!)

- An agreement among firms to divide the market, set prices, or limit production
- Collusion is illegal in the United States, but the lure of monopolistic profits can tempt businesses to make such agreements despite the illegality and risks.

Price Fixing

- An agreement among firms to charge one price for the same good.

Cartel

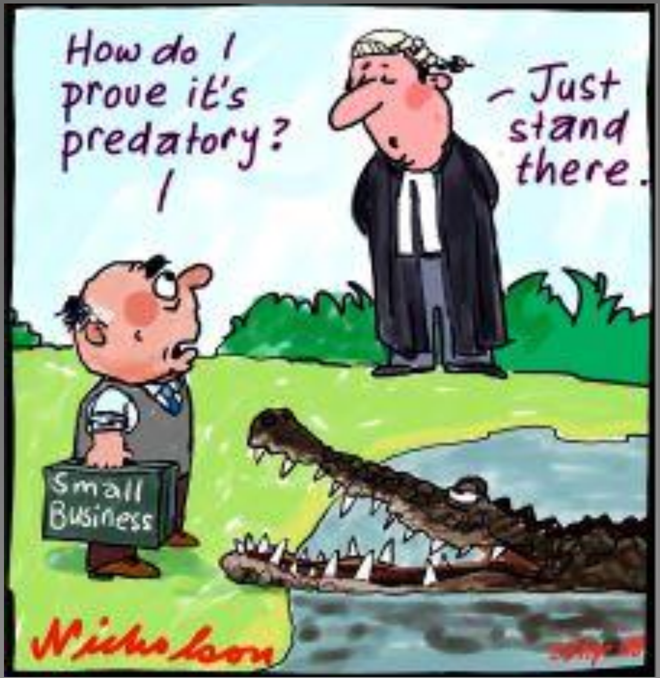
- A formal organization of producers that agree to coordinate prices and production

- Cartels are illegal in the United States although other countries do allow
- Cartels can only survive if every member keeps to its agreed output levels and no more. Otherwise prices will drop.
- Each member has a strong incentive to cheat
- Cartels can also collapse if some producers are left out of the group and decide to lower their price.
- Cartels do not usually last very long.

Regulation and Deregulation

What is predatory pricing?

Selling a product below cost to drive a competitor out of the market.



What is the purpose of antitrust laws?

To make sure that firms do not unfairly force out competitors.

What is a trust?

Its like a cartel. Its an illegal grouping of companies that discourages competition.

Under what conditions will a government approve a merger?

When the merger would lead to lower costs or to a better product.

How does predatory pricing hurt competition?

By charging less, the other companies can not compete and will go out of business. The company can then charge more than they did before.

What is a merger?

A combination of two or more companies into a single firm.

What is deregulation?

The removal of some government controls over a market.

How did deregulation change the banking and air travel industries?

It caused these companies to have more competitions because there were less barriers of entry into the market.

Why did the man once regulate the banking, trucking, and airline industries?

Because they were jacking up prices.

Why does the man believe it has the right to intervene in markets to promote competition? Is this consistent with the ideas of laissez faire and free markets?