

1 **Perfect Competition**

- What conditions must exist for perfect competition?
- What are barriers to entry and how do they affect the marketplace?
- What are prices and output like in a perfectly competitive market?

2 **The Four Conditions for Perfect Competition**

3 **Barriers to Entry**

1 Start-up Costs

- The expenses that a new business must pay before the first product reaches the customer are called start-up costs.

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2 Technology

- Some markets require a high degree of technological know-how. As a result, new entrepreneurs cannot easily enter these markets.

4 **Price and Output**

5 **Section 1 Assessment**

1. Which of the following is NOT a condition for perfect competition?
 - (a) many buyers and sellers participate
 - (b) identical products are offered
 - (c) market barriers are in place
 - (d) buyers and sellers are well-informed about goods and services
2. How does a perfect market influence output?
 - (a) Each firm adjusts its output so that it just covers all of its costs.
 - (b) Each firm makes its output as large as possible even though some goods are not sold.
 - (c) Different firms make different amounts of goods, but some make a profit and others do not.
 - (d) Different firms each strive to make more goods to capture more of the market.

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7 **Monopoly**

- How do economists define the word monopoly?
- How are monopolies formed?
- What is price discrimination?
- How do firms with monopoly set output?

8 **Defining Monopoly**

- A monopoly is a market dominated by a single seller.
- Monopolies form when barriers prevent firms from entering a market that has a single supplier.

- Monopolies can take advantage of their monopoly power and charge high prices.

9  **Forming a Monopoly**

10  **Government Monopolies**

- Technological Monopolies
 - The government grants patents, licenses that give the inventor of a new product the exclusive right to sell it for a certain period of time.
- Franchises and Licenses
 - A franchise is a contract that gives a single firm the right to sell its goods within an exclusive market. A license is a government-issued right to operate a business.
- Industrial Organizations
 - In rare cases, such as sports leagues, the government allows companies in an industry to restrict the number of firms in the market.

11  **Price Discrimination**

1. Although price discrimination is a feature of monopoly, it can be practiced by any company with market power. Market power is the ability to control prices and total market output.
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2. Targeted discounts, like student discounts and manufacturers' rebate offers, are one form of price discrimination.
 - Price discrimination requires some market power, distinct customer groups, and difficult resale.

12  **Output Decisions**

- Even a monopolist faces a limited choice – it can choose to set either output or price, but not both.
- Monopolists will try to maximize profits; therefore, compared with a perfectly competitive market, the monopolist produces fewer goods at a higher price.

13  **Section 2 Assessment**

1. A monopoly is
 - (a) a market dominated by a single seller.
 - (b) a license that gives the inventor of a new product the exclusive right to sell it for a certain amount of time.
 - (c) an industry that runs best when one firm produces all the output.
 - (d) an industry where the government provides all the output.
2. Price discrimination is
 - (a) a factor that causes a producer's average cost per unit to fall as output rises.
 - (b) the right to sell a good or service within an exclusive market.
 - (c) division of customers into groups based on how much they will pay for a good.
 - (d) the ability of a company to change prices and output like a monopolist.

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15 **Monopolistic Competition and Oligopoly**

- How does monopolistic competition compare to a monopoly and to perfect competition?
- How can firms compete without lowering prices?
- How do firms in a monopolistically competitive market set output?
- What is an oligopoly?

16 **Four Conditions of Monopolistic Competition**

17 **Nonprice Competition**

18 **Prices, Profits, and Output**

- Prices
 - Prices will be higher than they would be in perfect competition, because firms have a small amount of power to raise prices.
- Profits
 - While monopolistically competitive firms can earn profits in the short run, they have to work hard to keep their product distinct enough to stay ahead of their rivals.
- Costs and Variety
 - Monopolistically competitive firms cannot produce at the lowest average price due to the number of firms in the market. They do, however, offer a wide array of goods and services to consumers.

19 **Oligopoly**

1 Collusion

- Collusion is an agreement among members of an oligopoly to set prices and production levels. Price-fixing is an agreement among firms to sell at the same or similar prices.

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2 Cartels

- A cartel is an association by producers established to coordinate prices and production.

20 **Comparison of Market Structures**

- Markets can be grouped into four basic structures: perfect competition, monopolistic competition, oligopoly, and monopoly

21 **Section 3 Assessment**

1. The differences between perfect competition and monopolistic competition arise because

- (a) in perfect competition the prices are set by the government.
- (b) in perfect competition the buyer is free to buy from any seller he or she chooses.
- (c) in monopolistic competition there are fewer sellers and more buyers.
- (d) in monopolistic competition competitive firms sell goods that are similar enough to be substituted for one another.

2. An oligopoly is

- (a) an agreement among firms to charge one price for the same good.
- (b) a formal organization of producers that agree to coordinate price and output.
- (c) a way to attract customers without lowering price.
- (d) a market structure in which a few large firms dominate a market.

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23 **Regulation and Deregulation**

- How do firms use market power?
- What market practices does the government regulate or ban to protect competition?
- What is deregulation?

24 **Market Power**

- ① • Markets dominated by a few large firms tend to have higher prices and lower output than markets with many sellers.
- ② • To control prices and output like a monopoly, firms sometimes use predatory pricing. Predatory pricing sets the market price below cost levels for the short term to drive out competitors.

25 **Government and Competition**

26 **Deregulation**

- Deregulation is used to promote competition.
- Many new competitors enter a market that has been deregulated. This is followed by an economically healthy weeding out of some firms from that market, which can be hard on workers in the short term.

27 **Section 4 Assessment**

1. Antitrust laws allow the U.S. government to do all of the following EXCEPT

- (a) regulate business practices
- (b) stop firms from forming monopolies
- (c) prevent firms from selling new experimental products
- (d) break up existing monopolies

2. The purpose of both deregulation and antitrust laws is to

- (a) promote competition
- (b) promote government control
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