

Economics (Micro) Application

BUSA 1105

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Summaries provided by:

<http://www.bized.co.uk/educators/16-19/economics/firms/lesson/marketstructure.htm>

- Purpose
 - The purpose of this application is to make you aware of microeconomic behavior of individual firms. You will assess firms behaviors throughout this application

- Assignment:
 - Choose a company
 - Determine the market the company is in. (shoes, computers, home products)
 - Determine the market structure (Perfectly Competitive Firm, Monopoly, Oligopoly, or Monopolistic Competitor)
 - Determine the industry the company is in. (Manufacturing – durable or non-durable, trade – retail or wholesale, Finance Insurance Real Estate, construction, mining, agriculture, services)
 - Are there a lot of competitors? Who are they?
 - How are their prices compared to other companies?
 - Is the government involved with their industry, how?
 - How do they advertise?
 - What are the barriers to entering their industry?

- Additional Information
 - Information on the market structures can be found on page 22 of the textbook.
 - Below is a quick summary of the market structures:

Perfect Competition:

- One extreme of the market structure spectrum
- **Characteristics:**
 - Large number of firms
 - Products are homogenous (identical) – consumer has no reason to express a preference for any firm
 - Freedom of entry and exit into and out of the industry
 - Firms are price takers – have no control over the price they charge for their product
 - Each producer supplies a very small proportion of total industry output
 - Consumers and producers have perfect knowledge about the market

Example: Typical Example: Agriculture/farming

Monopoly:

- **Characteristics**
 - Pure monopoly – where only one producer exists in the industry
 - In reality, rarely exists – always some form of substitute available!
 - Monopoly exists, therefore, where one firm dominates the market
 - Firms may be investigated for examples of monopoly power when market share exceeds 25%
- **Origins of monopoly:**
 - Through growth of the firm
 - Through amalgamation, merger or takeover

- Through acquiring patent or license
 - Through legal means – Royal charter, nationalisation, wholly owned plc
- Summary of characteristics of firms exercising monopoly power:
 - **Price** – could be deemed too high, may be set to destroy competition (destroyer or predatory pricing), price discrimination possible.
 - **Efficiency** – could be inefficient due to lack of competition (X-inefficiency) or... could be higher due to availability of high profits

Examples:

Local Utility Companies: Such as Gas, Electricity, Water, & even cable/internet provider

Oligopoly

- **Characteristics**
 - Competition between the few
 - May be a large number of firms in the industry but the industry is dominated by a small number of very large producers
 - Concentration Ratio – the proportion of total market sales (share) held by the top 3,4,5, etc firms:
 - A 4 firm concentration ratio of 75% means the top 4 firms account for 75% of all the sales in the industry
 - Price may be relatively stable across the industry – kinked demand curve?
 - Potential for collusion
 - Behaviour of firms affected by what they believe their rivals might do – interdependence of firms
 - Goods could be homogenous or highly differentiated
 - Branding and brand loyalty may be a potent source of competitive advantage
 - Non-price competition may be prevalent
 - Game theory can be used to explain some behaviour
 - AC curve may be saucer shaped – minimum efficient scale could occur over large range of output
 - High barriers to entry

Examples:

Music Industry, Oil/Gas Companies, Major Car Manufactures, National Banks

Monopolistic Competition

- **Characteristics**

- Large number of firms in the industry
- May have some element of control over price due to the fact that they are able to differentiate their product in some way from their rivals – products are therefore close, but not perfect, substitutes
- Entry and exit from the industry is relatively easy – few barriers to entry and exit
- Consumer and producer knowledge imperfect
- In each case there are many firms in the industry
- Each can try to differentiate its product in some way
- Entry and exit to the industry is relatively free

Examples:

Restaurants, Plumbers, electricians, local builders, Solicitors, Private schools, Insurance brokers, Health clubs, Hairdressers, Funeral directors, etc...

List of Company's to choose from:

K-Mart

Wal-Mart

TJ-Max

McDonald's

Toyota

Ford

Toy's R US

Coca Cola

Exxon Mobile

Lowe's

Bank of America

Kroger

Target

Dell

Boeing

Microsoft

Wal-Green

Johnson and Johnson

Wells Fargo

Time Warner

Best Buy

PepsiCo

Walt Disney

Comcast

Apple

American Express

AllState

Motorola

Tyson Foods

3M

Macy's

Rite Aid

Marriott International

Kellogg

US Airways

Yum Brands

Southwest Airlines

Old Navy

Gap

Starbucks

Game Stop

Ebay

Nordstrom

Car Max

Office Max

Sherwin-Williams

Whole Market Foods

Google

AutoZone

Ross Stores

BlockBuster

Foot Locker

Western Union

Barnes and Noble

PetSmart

Washington Post

Radio Shack

Hasbro

H & R Block

JC Penny's

Belk

Jack in the Box

Rent A Center

TD Ameritrade

HP

Honda