Session 7:

Market Structures

Session Description

Students learn that market structures refer to the characteristics, level of competition, and the resulting prices and quantities of goods and services produced. In addition, they learn that, in general, the greater the amount of competition in a market, the lower the price and higher the quantity produced and vice versa.

Standards and Benchmarks (see page 7.5)

Talking Points

Market Structures: Perfect Competition

1. The following exist in perfectly competitive markets:
    - Many firms produce essentially identical products.
    - Businesses enter and exit the market with ease—that is, there are no barriers to entry or exit.
    - Individual firms are "price-takers"—that is, they have no power over their output price.
    - The market sets the price in the short run.
    - In the long run,
        - firms enter an industry when economic profits cause supply to shift to the right or
        - firms leave an industry when economic losses cause supply to shift to the left.

2. The following occur as a result of perfect competition:
    - Consumers get the lowest price possible.
    - Productive efficiency: Firms are forced to produce in the least-costly manner possible.
    - Allocative efficiency: The market sets the equilibrium quantity.

3. The "invisible hand" of the market refers to the market's ability to respond to changes in society's values by automatically reallocating resources toward more-desired goods.

Other Market Structures

1. There are other market structures—with varying levels of competition.

2. The market structure with the least amount of competition is a monopoly. A monopoly is a single firm that
   - produces a product with no close substitutes and
   - is protected by insurmountable barriers to entry.

3. Barriers to entry are obstacles that limit the ability of new firms to enter a market.

4. Monopolies are "price-makers." They have complete control over their output price because they have complete control over supply (the quantity produced).

5. Monopolies increase the price of their output by restricting their production (output).

6. The following occur as a result of a monopoly:
   - Prices are higher and output is lower than with perfect competition; therefore, the output level chosen is not allocatively efficient.
   - Productive efficiency is not necessary for the firm to survive.

7. The monopolistic competitive market structure is similar to the perfectly competitive market structure except there is some non-price competition due to product differentiation in the former.

8. The oligopolistic market structure is similar to the monopolistic market structure except price leadership is used to set prices and there is extensive non-price competition (advertising and product development) in the former.

9. Collusion is an agreement among firms in a market about quantities to produce or prices to charge.

10. If businesses are truly seeking long-run economic profits, they would much prefer to operate at the monopoly end of the market structure spectrum. Long-run economic profits are much more likely there than in the more-competitive market structures.

11. Monopolistic competitive markets tend to be dominated by sole proprietorships and partnerships, while oligopolistic markets tend to be dominated by corporations.

Resources

NOTE: See p. v for instructions on how to set up an Econ Lowdown account and assign resources found in the Resource Gallery to your students.

Video

Allow time for students to view the video:

- Microeconomics Modules—Episode 25: Market Structures (Dr. Mary J. McGlasson) (5:51)
  https://www.youtube.com/watch?v=9Hxy-TuX9fs

Audio Q&A

Allow time for students to listen to the podcast and answer the questions:

- Economic Lowdown Audio Series—The Role of Self-Interest and Competition in a Market Economy (10:00)
  https://www.econlowdown.org/resource-gallery/economic-lowdown-audio-series-episode-3-the-role-of-self-interest-and-competition-in-a-market-economy

Reading Q&A

Allow time for students to read the essays and answer the questions:

- *Page One Economics®*: The Economics of Flying: How Competitive Are the Friendly Skies?
  https://www.econlowdown.org/resource-gallery/the-economics-of-flying-how-competitive-are-the-friendly-skies

- *Page One Economics®*: What Should College Athletes Be Paid? Market Structure and the NCAA
  https://www.econlowdown.org/resource-gallery/what-should-college-athletes-be-paid-market-structure-and-the-ncaa

Lessons

Allow time for students to complete the lessons:

- Teaching Market Structures with a Competitive Gum Market
  https://www.stlouisfed.org/education/teaching-market-structures

- *High School Economics,* 3rd Edition (email acee@economicsarkansas.org to order this book)
  - Lesson 9: Perfect Competition Versus Monopoly
    Visuals and activities for this lesson can be found at
    https://highschooleconomics.councilforeconed.org/

  - Lesson 10: Game Theory: One Step Ahead of the Competition
    Visuals and activities for this lesson can be found at
    https://highschooleconomics.councilforeconed.org/

- Professional Baseball—Can You Join the League?
  https://www.stlouisfed.org/education/professional-baseball

- Perfect Competition (slides)
  https://www.stlouisfed.org/education/perfect-competition

- Monopoly (slides)
  https://www.stlouisfed.org/education/monopoly

- Monopolistic Competition (slides)
  https://www.stlouisfed.org/education/monopolistic-competition

Standards and Benchmarks

Arkansas Economic Standards

Content Standard E.1: Students will understand the impact of economic decision-making. This includes the exchange of goods and services; role of producers, consumers, and government in the marketplace; and growth, stability, and interdependence within a global economy.

Content Standard E.3: Students will understand the exchange of goods and services. This includes different allocation methods and changes in supply and demand; the role of producers, consumers, and government in a market economy; and the degree of competition among buyers and sellers in markets.

- **E.3.ECON.5:** Evaluate intended and unintended consequences of government policies created to improve market outcomes (e.g., regulatory, participatory, supervisory, price floor, price ceiling, minimum wage).
- **E.3.ECON.6:** Compare and contrast various degrees of competition in markets (e.g., perfect competition, monopolistic competition, oligopoly, monopoly).
- **E.3.ECON.7:** Explain how differences in the extent of competition in various markets can affect price, quantity, and variety.