

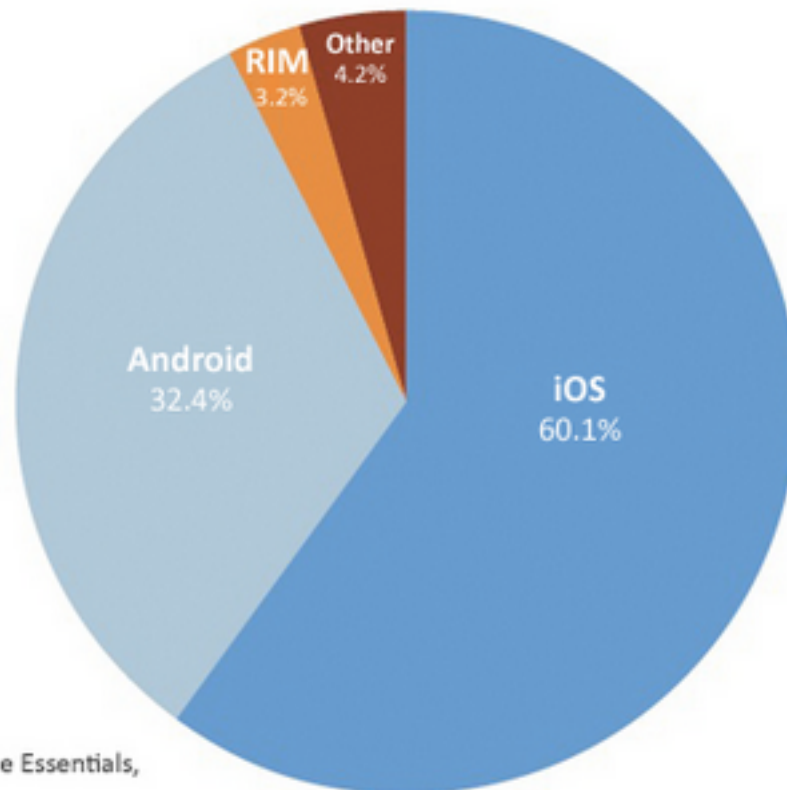


Market Structures

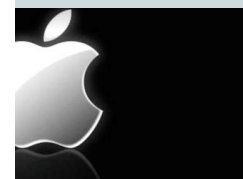
Market Power



U.S. Connected Device Digital Traffic Market Share By OS



Source: comScore Device Essentials,
Dec 2011 - 11.6



Market

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Perfect Competition

“Price Takers”



- Large number of firms producing the **same/identical product**.
- **Price** is set by buyer.
- Each firm's production level **does not influence the price**.
- **Few** barriers to entry.
 - Agriculture
Ex. Strawberries, wheat, poultry
 - Gold
 - Oil
 - Stock market



Monopolistic Competition

- Many firms compete to sell products that *are similar but not identical*.
- Differentiated products.
- *Slight* control over price.
- *Few* barriers to entry

Ex. -Jeans
 -Watches
 -Shoes



Oligopoly



- Market dominated by a few large profitable firms.
(3-4 control 70-80%).
- Little or no true *price* competition.
- Firms are interdependent
- **Significant** barriers to entry (start up costs high).

Ex. -Airline Industry
 -Breakfast Cereal
 -Soft Drinks

How do firms in an oligopoly control their respective industries?

Collusion- an agreement among firms to set prices.

Illegal



Predatory Pricing- selling a product below cost to drive competitors out of the market.

Illegal



Time for a Simulation....

Pricing-Profit Situations (Oligopoly)

Industry			Individual Firm			
Prices (Firm Sales)	Total Sales	Price	Sales Quantity	Total Revenue $P \times Q$	Total cost \$55 Fixed \$1/Variable	Profit
H, H, H 30, 30, 30	90	H = \$ 4	→			+\$30
H, H, L 10, 10, 80	100	H = \$4	→			- \$25
		L = \$3	→			+ \$105
H, L, L 5, 50, 50	105	H = \$4	→			- \$40
		L = \$3	→			+\$45
L, L, L 36, 36, 36	108	L = \$3	→			+ \$17

Profit or Loss Statement				
(Read the results from the prepared chart as you play)				
No.	Industry Situation	Your Firm's Price (H or L)	Profit	Loss
1	L, L, H	H		- 40
2	H, H, H	H	+30	
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				



Pricing-Profit Situation (Follow Up)

- 1. What was your strategy at the start of the game? How did you change your strategy as the game progressed?**
- 2. As a consumer which strategy would you like to see firms follow?**
- 3. Do you think collusion is fair? Why/Why not.**



Chart

How do oligopolies continue to grow legally without becoming a monopoly?

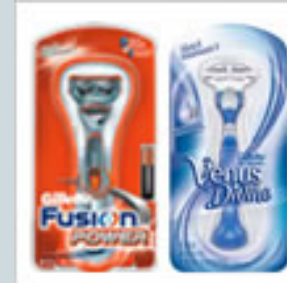
They buy other businesses!

Conglomerate- a business combination merging more than three businesses that make unrelated products.

Examples

GILLETTE

1. Razors/shaving accessories - #1 in U.S.
 - 70% market share



2. Batteries- #1 in U.S.
 - 50% market share



Duracell

3. Deodorant- #2 in U.S.



Right Guard

More Examples



SARA LEE

1. Baked Goods- #2 bakery in the U.S.



2. Packaged Meat- major provider to food service

Hilshire Farm, Jimmy Dean – “Go Meat!”



3. Apparel- #1 intimate wear provider in U.S.

Beefy T, Hanes, Playtex



Monopoly

- A market dominated by a **single seller**.
- Barriers **prevent** firms from entering the market.
- High prices = **no competition**.
- **Natural Monopoly**: Most efficient (lowest long-run average cost) for production in a single firm.

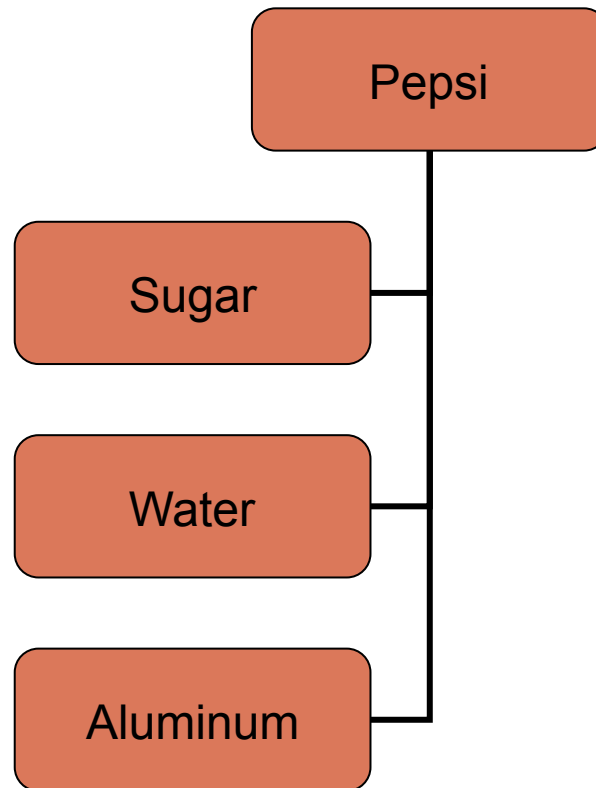
Ex. Gas Company

- **Government Monopoly**: patent, license, franchise.

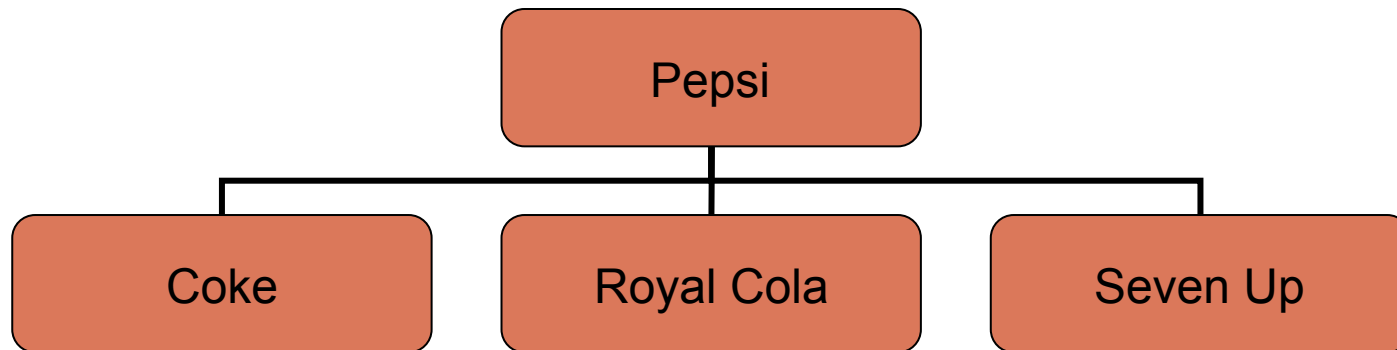
Ex. Public Water.



Vertical Monopoly



Horizontal Monopoly



Monopolies and You



Antitrust Laws: Laws that restrict formation of cartels, mergers that lessen competition, and monopolies.



Quick Write:



Using the concept of supply and demand, how would consumers react to an economy based solely on a monopolistic market structure?

TUCKER



Sadly Tucker died...

You are going to write a eulogy where you honor Tucker's ingenuity and brilliance.

The eulogy should contain the following words:

- Entrepreneur
- Innovation
- Oligopoly
- Collusion
- Competition



Time for our second DBQ!!!

Just kidding...

Competition and Market Power



**All airlines try to
impress you with their
lowest fares.**

**How many can
do it with
their highest?**

	Walk-up Fare	3-Day Advance Purchase	14-Day Advance Purchase
Raleigh/Durham to Atlanta One-way	\$139	\$79	\$49
Raleigh/Durham to Houston (Hobby) One-way	\$203	\$173	\$119

No matter how little advance notice you have to get where you're going, AirTran always has a great fare to get you there. Even at the last minute. These fares to Atlanta and Houston are just a couple of examples. Plus, for only \$25 more than our walk-up fares on nonstop flights (\$40 on connecting flights), you can enjoy the extra space of our Business Class. But we thought putting that fare in big bold numbers would be pushing it. For more information about our other destinations, or for reservations, call your travel agent or 1-800-AIR-TRAN. For complete vacation packages, call AirTran Vacations at 888-785-9760. www.airtran.com

Seats are limited, subject to availability and may not be available on all flights. All fares are one-way. All fares are non-refundable and a \$50 fee per person applies to any change made after purchase plus any applicable increase in airfare. Fares and schedules subject to change without notice. Business Class upgrades are available for \$25 over the full one-way coach fare for nonstop flights and \$40 over the full one-way coach fare for connecting flights, and are not available for discounted fares. Airport Passenger Facility Charges of up to \$12 are not included. ©AirTran 1999.



Price Discrimination



Price Discrimination: Dividing consumers into two or more groups and charging a different price to each group.

- Everyone has his or her own maximum price.
- Monopolists can attract more consumers and maximize profits because they are capturing each consumer's maximum price

Examples of Price Discrimination (remember consumer surplus?)

- Senior Citizen Discount
- Kids Discount
 - They still take up a seat
- Ladies Night
- Coupons/ “Kohl’s Cash”
- ASB
- College Tuition
- Can you think of others?



How to Make the Most Through Price Discrimination



Your cereal manufacturer knows that some of its customers pay lots of attention to prices, while others don't. If it were to cut its price, then only the price-sensitive customers would respond by buying more. The price cut would be wasted (from the firm's point of view) on those shoppers who don't pay attention to prices.

Coupons are a clever way of giving a break just to the price-sensitive shoppers. By creating all of the hassles you described, manufacturers see to it that only very price-sensitive customers are going to end up using their coupons. This targets the price cut on just those people who will be most responsive to it.