Economics
Chapter 8 – Competition and Markets

CHAPTER 8: SECTION 1 - A Perfectly Competitive Market

Four Types of Markets
- A ____________________________ is the setting in which a seller finds itself. Market structures are defined by their characteristics. Those characteristics include the _____________ of sellers in the market, the _____________ that sellers produce and sell, and how ___________ or ____________ it is for new firms to enter the market.
  1. Perfectly competitive
  2. Monopolistic
  3. Monopolistic competitive
  4. Oligopolistic

Characteristics of a Perfectly Competitive Market
- A perfectly competitive market has the following characteristics:
  - It has __________ buyers and many sellers.
  - All firms sell ______________ goods.
  - Buyers and sellers have relevant ______________ about prices, product quality, sources of supply, and so on.
  - Firms can easily _______ and ________ the market. No entity, such as government, prevents entry into or exit from the market.
- Examples of perfectly competitive markets include __________ farming, soybean and corn farming, __________ production and the ____________ markets.

Sellers in a Perfectly Competitive Market Are Price Takers
- A _______________ is a seller that can only sell his or her goods at the ______________ price.
- Price takers could sell at a price lower than the equilibrium price, but they have no ____________ to. All of a particular seller’s output can be sold at the equilibrium price.
- Even if a market does not perfectly match the four characteristics of a perfectly competitive market, it may still be ______________ a perfectly competitive market.

What Does a Perfectly Competitive Firm Do?
- A perfectly competitive firm produces the quantity of output at which marginal revenue _____________ marginal cost. Because all firms in a perfectly competitive market are price takers, the competitive firm has no choice in the _________________.

Profit Is a Signal in a Perfectly Competitive Market
- In a perfectly competitive market, profit is a ____________ to firms that are currently not in the market. It says, “Come over here and get me.”
- Because it is easy to enter a perfectly competitive market, new firms will enter the market as long as firms in the market are ______________ a profit. As new firms enter the market, they increase ____________ and decrease ______________. They will continue to enter the market until profits decrease to the point that firms in the market are not earning a profit.

Profits May Be Taxed Away
- Government may enact a tax to ______________ the profitability of a market. This tax will discourage new firms from entering the market, reducing ______________. The unintended effect is ______________ prices for consumers.
Applying the Principles
Chapter 8, Section 1 - A Perfectly Competitive Market

What are the four characteristics of a perfectly competitive market?
1. ________________________________________________________________
2. ________________________________________________________________
3. ________________________________________________________________
4. ________________________________________________________________

5. A seller in a perfectly competitive market is a price taker. What is a price taker?

6. Why does a price taker take the equilibrium price? Why doesn’t he or she sell for a price that is higher or lower than equilibrium?

7. How much output does a seller in a perfectly competitive market produce?

8. What prices does a seller in a perfectly competitive market charge for its products?

9. Fill in the missing numbers in the following tables. **The data are for a seller in a perfectly competitive market in which the equilibrium price is $15.** (10 points possible)

<table>
<thead>
<tr>
<th>Units of Output</th>
<th>Total Revenue</th>
<th>Marginal Revenue</th>
<th>Total Cost</th>
<th>Marginal Cost</th>
<th>Profit or (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$15</td>
<td>$15</td>
<td>$21</td>
<td>--------------</td>
<td>($6)</td>
</tr>
<tr>
<td>2</td>
<td>$____</td>
<td>$15</td>
<td>$29</td>
<td>$8</td>
<td>$1</td>
</tr>
<tr>
<td>3</td>
<td>$45</td>
<td>$____</td>
<td>$33</td>
<td>$4</td>
<td>$12</td>
</tr>
<tr>
<td>4</td>
<td>$____</td>
<td>$15</td>
<td>$37</td>
<td>$____</td>
<td>$23</td>
</tr>
<tr>
<td>5</td>
<td>$75</td>
<td>$____</td>
<td>$49</td>
<td>$12</td>
<td>$____</td>
</tr>
<tr>
<td>6</td>
<td>$____</td>
<td>$15</td>
<td>$64</td>
<td>$____</td>
<td>$____</td>
</tr>
<tr>
<td>7</td>
<td>$105</td>
<td>$____</td>
<td>$81</td>
<td>$____</td>
<td>$____</td>
</tr>
</tbody>
</table>

19. Based on the table above, how much output should the firm produce? ________

20. What price should the firm charge for its product? ________
CHAPTER 8: SECTION 2 - Monopolistic Markets

Characteristics of a Monopoly

A monopolistic market has the following three characteristics:

- It has a ____________ seller.
- The single seller sells a product that has no close _________________.
- The market has extremely ____________ barriers to entry. A barrier to entry is anything that __________________ a firm from entering a market.

How Monopolies Differ from Perfect Competitors

- A monopoly firm is a ______________ ______________—that is, a seller that can sell some of its output at various prices.
- Over time, a monopoly firm finds the ______________ price at which it can sell its ________ output.
- There are ___________ to how much a monopolist can charge for a product. These limits are determined by the amount of ______________ for the product.
- No monopoly seller is ____________ profits. A firm earns profits only if the price is ______________ than the total average cost.

Barriers to Entry

- Legal barriers to entry in a monopoly market include public franchises, patents, and copyrights.
- A public franchise is a right that the government has ______________ to a firm. It permits the firm to provide a particular good or service, and it __________ all other firms from providing the same good or service. (ex. Water companies, Private mail carriers)
- A natural monopoly occurs when a firm has such a low ______________ ______________ that it is the only firm that can survive in the market. If one firm can sell a product for less than it costs other firms to produce the same product, competitors will ___________ the market.
- Exclusive ownership of a ______________ resource by one firm can be a barrier to entry in a particular market.
- The government can create a monopoly by legally __________________ a firm from competition.

Antitrust and Monopoly

- Antitrust laws are pieces of ______________ that are passed to control monopoly power and preserve and promote ______________.
- Examples of antitrust laws are as follows.
  - The __________________________, passed in 1890, states that either attempting to become a monopolist or trying to restrain trade is illegal.
  - The __________________________, passed in 1914, made certain business practices illegal when their effects “may be to substantially lessen competition or tend to create a monopoly,” through price discrimination or tying contracts.
  - The __________________________ of 1914 declared that unfair methods of competition in commerce were illegal. This act prohibited aggressive price-cutting.
  - The ___________________________ was passed in 1936. This act attempted to decrease the failure rate of small businesses by protecting them from large chain stores. It has been criticized by some economists as protecting small businesses and hurting market competition.
  - The __________________________ of 1938 gave the Federal Trade Commission (FTC) the power to deal with false and deceptive acts or practices by businesses.
- Antitrust laws do not usually apply to ______________ monopolies. To deal with natural monopolies, the government often uses some kind of ______________. For instance, the government might set the selling price or specify a rate of profit.
Applying the Principles
Chapter 8, Section 2 - A Monopolistic Market

21. Whereas a firm in a perfectly competitive market is a price taker, the firm in a monopolistic market is a _________________.

22. Is it easier for a perfectly competitive firm or for a monopolist to determine price? Explain.

23. Does a monopolist face any limit on the price it charges? Explain.


Identify each of the company below as a government monopoly or a market monopoly.

25. Company A owns nearly all of the world’s diamonds. __________________________

26. Company B invents an entirely new product, and a patent is granted. __________________

27. Company C has the exclusive rights to provide cable TV services to a city. __________________

28. Company D has per-unit costs that are much lower than those of any of its competitors. __________

Each of the scenarios listed below presents a monopoly issue. In each blank provided, write the name of the law that was passed to deal with the issue.

29. Company A, a nationally known “big box” store with 150,000 square feet of merchandise, builds a store in your city. Because company A buys from suppliers in huge quantities, it receives special discounts. The small businesses in town say they are unable to survive and must have protection from company A.

Law: ________________________________

30. People in your town have been flocking to company W since it started its new advertising campaign. The company is making claims that seem too good to be true. The competitors of company W say that company W is using false advertising to deceive its customers.

Law: __________________________________________________________________

31. Company X promises to sell a scarce resource to company B only if company B buys other goods from company X.

Law: ________________________________

32. Company Y attempts to buy all of the firms that compete with it.

Law: ________________________________

33. Your chief competitor, company Z, slashes prices on its products. Its new prices are much lower than the prices charged by any of its competitors in town. You and the other business owners in town accuse company Z of cutthroat pricing.

Law: __________________________________________________________________
CHAPTER 8: SECTION 3 - A Monopolistic Competitive Market

Characteristics of a Monopolistic Competitive Market

A monopolistic competitive market has the following characteristics:
- It has ______________ buyers and many sellers.
- Firms in the market produce and sell slightly __________________ products. This characteristic is unique to a monopolistic competitive market.
- Firms in the market can easily __________ and __________ the market.

Monopolistic Competitive Firms Are Price Searchers

- In a monopolistic competitive market, a firm can __________ the price of its product and still expect to __________ some, if not all, units. This is because what it sells is not identical to any other product in the market.

What Do Monopolistic Competitive Firms Do?

- Again, monopolistic competitive firms produce the quantity of output at which marginal revenue __________ marginal cost. The price at which they sell their product is the __________ price per unit at which they can sell their entire output.

How Are Monopolistic Competitors’ Products Different?

- Even similar products can be ______________. For example, two physically identical products that are sold in different locations are considered different products. Packaging, sales service, and delivery options are further examples of differentiation.
- Most firms would rather differentiate their products from competitors. Doing so allows them to act more as __________________ firms when determining price.

What Matters Is How Much Competition a Seller Faces

- How much competition a seller faces principally depends on two factors:
  - how close to unique a seller’s product is
  - how easy it is for new sellers to enter the market
- How much competition does a monopoly seller face? It faces __________ competition than either a perfect competitor or a monopolistic competitor. It sells a product that has no close ______________. Consumers buying from monopoly sellers have fewer __________ available to them.
What are the three characteristics of a monopolistic competitive market?

34. ______________________________________________________________
35. ______________________________________________________________
36. ______________________________________________________________

37. How much output does a monopolist competitor produce?

38. What price does a monopolist competitor charge for its product?

39. Do most sellers prefer more competition or less competition? Explain why.

40. What two factors determine the amount of competition a seller faces? (2 points)

48. Some of the differences in a monopolistic competitors’ products are physical. What other kinds of differences might exist for products in this market?

49. Why does a monopolistic competitive firm try to differentiate its product from that of its competitors?

50. Most clothing producers are monopolistic competitors. When you go clothes shopping, what factors determine what jeans or shirt you buy? Do you see why firms try to differentiate their products?
CHAPTER 8: SECTION 4 - An Oligopolistic Market

Characteristics of an Oligopolistic Market

- An oligopolistic market has the following characteristics:
  - It has _______ sellers.
  - Firms in the market produce and sell either __________ or slightly __________ products.
  - The barriers to entry are ________________.
- Oligopolistic firms are price searchers. They can __________ the price of their good and still sell some, or all, of their product.
- Oligopolistic industries can be identified by looking at the ______________ of __________ accounted for by the top ______ firms in the industry. If only a few firms account for a large percentage of sales, then the market is considered oligopolistic.

How Much Competition Do Oligopolists Face?

- According to the conditions that characterize oligopoly, an oligopolist’s product is not __________, so the market should be competitive. However, it is difficult to __________ an oligopolistic market.

Cartels

- A cartel agreement specifies how the firms that entered into the agreement will work __________ to reduce the competition among them.
- In the United States, cartel agreements are ________________.

Is It Buyers Against Sellers or Sellers Against Buyers?

- The threat of actual or potential competition from other sellers leads sellers to share the same __________ as buyers. For instance, both sellers and buyers want to keep prices down. Buyers want to buy lower-cost items so that they have more __________ available for other purchases. Sellers want to sell lower-cost items so that they can __________ their competitors in pricing.
- Competition between sellers tends to keep both __________ and __________ down.

Price Discrimination

- Price discrimination occurs when a seller charges different __________ to different __________ for the same product, and the __________ of offering the product is the same for all those buyers.
- A seller may want to price discriminate to sell all of its output for the highest __________ __________.
- For price discrimination to work, different customers must be __________ and __________ to pay different prices for a good. Also, it must be impossible, or extremely costly, for a customer receiving the low price to __________ the product to other potential customers.
- A “__________________________” is an example of price discrimination.
- Price discrimination is illegal only if it results in reduced ________________ or if the discriminating sales cross __________ lines.
- Price discrimination is legal as long as no ______________ occurs to competition. It is also legal if the seller can show that charging a lower price to some customers is ______________ to adequately compete in the market.
Applying the Principles
Chapter 8, Section 4 - An Oligopolistic Market

What are the three characteristics of an oligopolistic market?

51. ________________________________________________________________
52. ________________________________________________________________
53. ________________________________________________________________

54. Is an oligopolist a price taker or a price searcher? _______________________

55. How do economists identify oligopolistic industries?

56. Why might oligopolistic firms be tempted to enter into a cartel agreement?

57. Why do cartels usually fail?

58. Suppose you (age 17) go to the zoo with your little sister (age 5), your mother (age 42) and your grandfather (age 66). When you arrive at the zoo, you find the following sign at the admission stand.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children (age 0-6)</td>
<td>$3</td>
</tr>
<tr>
<td>Students (age 6-18 with school ID)</td>
<td>$4</td>
</tr>
<tr>
<td>Seniors Citizens (over 65)</td>
<td>$6</td>
</tr>
<tr>
<td>General Admission</td>
<td>$8</td>
</tr>
</tbody>
</table>

Your mother mumbles something about age discrimination under her breath. You ask what she means, and she explains that although she may enjoy the zoo the least, she is charged the most. She says, “Your little sister, who likely enjoys the zoo the most, is charged the least. What an unfair pricing system!” Having mastered your recent economics quiz on price discrimination, how would you explain the purpose of the zoo pricing structure?

59. Stores often offer mail-in rebates for some of the products they sell. How are mail-in rebates a form of price discrimination?
<table>
<thead>
<tr>
<th>Market</th>
<th>Number of sellers</th>
<th>Type of product</th>
<th>Barriers to entry</th>
<th>Control over price</th>
<th>Examples of products and services sold in this type of market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perfectly competitive</td>
<td>Many</td>
<td>Identical</td>
<td>No barriers</td>
<td>No control</td>
<td>Wheat, corn, stocks</td>
</tr>
<tr>
<td>Monopolistic</td>
<td>One</td>
<td>Unique</td>
<td>Extremely high barriers</td>
<td>Considerable amount of control</td>
<td>Water, electricity, delivery of first-class mail</td>
</tr>
<tr>
<td>Monopolistic</td>
<td>Many</td>
<td>Slightly differentiated</td>
<td>No barriers</td>
<td>Yes, but not as much as in monopoly</td>
<td>Clothing, meals at restaurants</td>
</tr>
<tr>
<td>Oligopolistic</td>
<td>Few</td>
<td>Identical or slightly differentiated</td>
<td>Significantly high barriers</td>
<td>Yes, but not as much as in monopoly</td>
<td>Cars, cereal</td>
</tr>
</tbody>
</table>