**<u>Compare and contrast the characteristics of monopolistically competitive,monopolistic,and perfectly competitive markets</u>**

**<u>Comparison</u>**

- Monopolistic markets are when there is only one firm, and said firm determines the price and supply of all goods in the market.
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- Perfectly competitive markets are when there is a large number of different firms, and no firm has any control of the price and supply of goods in the market.
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- Monopolistically competitive markets are when there are a number of different firms selling similar products, but the product of each respective firm is distinct enough from each other to not be perfect substitutes.
- The imperfectly competitive structure is quite identical to the realistic market conditions where some monopolistic competitors, monopolists, oligopolists and duopolists exist and dominate the market conditions. The elements of Market Structure include the number and size distribution of firms, entry conditions, and the extent of differentiation.
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- These somewhat abstract concerns tend to determine some but not all details of a specific concrete market system where buyers and sellers actually meet and commit to trade. Competition is useful because it reveals actual customer demand and induces the seller (operator) to provide service quality levels and price levels that buyers (customers) want, typically subject to the seller’s financial need to cover its costs. In other words, competition can align the seller’s interests with the buyer’s interests and can cause the seller to reveal his true costs and other private information. In the absence of perfect competition, three basic approaches can be adopted to deal with problems related to the control of market power and an asymmetry between the government and the operator with respect to objectives and information: (a) subjecting the operator to competitive pressures, (b) gathering information on the operator and the market, and (c) applying incentive regulation.

Characteristics of Monopolistic Markets
In a competitive market, numerous companies are present in the market and supply identical products. Its demand curve is flat, whereas, in a monopolistic market, the demand curve is downward sloping. Companies that are operating in a competitive market can sell any desired quantity at the market price.

The following are the characteristics of a monopolistic market:

1. Single supplier
A monopolistic market is regulated by a single supplier. Hence, the market demand for a product or service is the demand for the product or service provided by the firm.

2. Barriers to entry and exit
Government licenses, patents, and copyrights, resource ownership, decreasing total average costs, and significant startup costs are some of the barriers to entry in a monopolistic market.

When one supplier controls the production and supply of a certain product or service, other companies are unable to enter the monopolistic market. If the government believes that the product or service provided by the monopoly is necessary for the welfare of the public, the company may not be allowed to exit the market.

Generally, public utility companies – such as electricity companies and telephone companies – may be prevented from exiting the respective market.

3. Profit maximizer
In a monopolistic market, the company maximizes profits. It can set prices higher than they would've been in a competitive market and earn higher profits. Due to the absence of competition, the prices set by the monopoly will be the market price.

4. Unique product
In a monopolistic market, the product or service provided by the company is unique. There are no close substitutes available in the market.

5. Price discrimination
A company that is operating in a monopolistic market can change the price and quantity of the product or service. Price discrimination occurs when the company sells the same product to different buyers at different prices.

Considering that the market is elastic, the company will sell a higher quantity of the product if the price is low and will sell a lesser quantity if the price is high.

monopoly, one business controls the whole market with no competition. This business, therefore, can set prices as it pleases, and it usually sets them quite high. In a monopoly, consumers have no choice about where to purchase the products or services they need or want. Instead, their decision is whether or not they can afford such products or services at the high cost of a monopoly.

The long-run characteristics of a monopolistically competitive market are almost the same as a perfectly competitive market. Two differences between the two are that monopolistic competition produces heterogeneous products and that monopolistic competition involves a great deal of non-price competition, which is based on subtle product differentiation. A firm making profits in the short run will nonetheless only break even in the long run because demand will decrease and average total cost will increase. This means in the long run, a monopolistically competitive firm will make zero economic profit. This illustrates the amount of influence the firm has over the market; because of brand loyalty, it can raise its prices without losing all of its customers. This means that an individual firm's demand curve is downward sloping, in contrast to perfect competition, which has a perfectly elastic demand schedule.

Perfectly Competitive Market Characteristics

Infinite buyers and sellers – An infinite number of consumers with the willingness and ability to buy the product at a certain price, and infinite producers with the willingness and ability to supply the product at a certain price.

Zero entry and exit barriers – A lack of entry and exit barriers makes it extremely easy to enter or exit a perfectly competitive market.

Perfect factor mobility – In the long run factors of production are perfectly mobile, allowing free long term adjustments to changing market conditions.

Perfect information - All consumers and producers are assumed to have perfect knowledge of price, utility, quality and production methods of products.

Zero transaction costs - Buyers and sellers do not incur costs in making an exchange of goods in a perfectly competitive market.

Profit maximizing - Firms are assumed to sell where marginal costs meet marginal revenue, where the most profit is generated.

Homogenous products - The qualities and characteristics of a market good or service do not vary between different suppliers.

Non-increasing returns to scale - The lack of increasing returns to scale (or economies of scale) ensures that there will always be a sufficient number of firms in the industry.

Property rights - Well defined property rights determine what may be sold, as well as what rights are conferred on the buyers

In pure competition, many small businesses operate on equal footing, sharing the market in a pretty much equal competition. Supply and demand work together to set price levels in this kind of market based on what consumers are willing to pay for a product and how much businesses are willing to produce and sell.

Characteristics of Monopolistic Competition

Four characteristics of a monopolistically competitive industry are:

1. Many sellers.

There are many sellers in this industry. Thus, there is a lot of competition.

2. Easy entrance.

Firms in monopolistic competition are small. It’s relatively easy for new firms to enter this industry and for existing firms to exit. Barriers to entry and exit are low.

3. Differentiated products.

Firms in this industry sell differentiated products. Unlike in perfect competition, products are not identical.

4. Local Advertising.
Firms in this industry frequently advertise. Because the firms are small, this is usually done on a local level.

Characteristics 1 and 2 are the same as in perfect competition. Characteristic 3 means that firms in this industry sell products that are similar but slightly different. The difference may be in the packaging of the product, the ingredients, the service associated with the product, the name of the product, etc. It is also possible that there may not be real differences, but only perceived differences by consumers.

Advertising (characteristic 4) helps to emphasize these differences to consumers.

Characteristics 3 and 4 usually result in competitors charging slightly different prices for their products. Competitor A may charge $5.49, while competitor B charges $5.29. Firms have some control over the price, and the demand curve is, therefore, downward sloping for each firm.

Examples of Monopolistically Competitive Industries

The following are examples of monopolistically competitive industries:
Retail clothing stores
Retail shoe stores
Gas stations
Fast food restaurants
Car dealers
Pizza restaurants
Financial consulting services
Legal services
Medical and dental offices

monopolistic competition market also features many small businesses in competition, but in this case, a few stand out due to their brand name recognition, advertisement, or marketing strategies. These businesses lead the pack, so to speak, and they therefore have the ability to set prices a bit higher than they might otherwise have done in a pure competition market.

**<u>Contrast</u>**
Difference between Perfect Competition, Monopoly, Monopolistic Competition, and Oligopoly
Basis

Perfect Competition

Monopoly

Monopolistic Competition

Oligopoly

Meaning

It is a market situation where a large number of buyers and sellers deal in a homogeneous product at a fixed price set by the market. It is a market situation where there is only one seller in the market selling a product with no close substitutes. It is a market situation in which there is a large number of firms selling closely related products that can be differentiated. It is a market situation where the number of big sellers of a commodity is less and the number of buyers is more.
Number of Sellers

This market has very large number of sellers. This market has a single seller. This market has a large number of sellers. This market has big sellers.
Number of Product

This market has homogeneous products. There are no close substitutes in this market. This market has closely related but differentiated products. This market has homogeneous or differentiated products.
Entry and Exit of Firms

There is freedom of entry and exit in this market. There is a restriction on the entry of new firms and exit of old firms. There is freedom of entry and exit in this market. There is a barrier on the entry of new firms into the market.
Demand Curve

This market has a perfectly elastic demand curve. This market is less elastic and has a downward-sloping demand curve. This market is more elastic but has a downward-sloping demand curve. The demand curve of an oligopoly market is uncertain as one cannot determine the exact behaviour pattern of a producer.
Price

As each of the firms in this market is a price-taker, the price is uniform. As the firms in this market are price-maker, there is a possibility of price discrimination. The firms have partial control over the price because of product differentiation. There is price rigidity in this market as the firms can influence it.
Selling Costs

In this market, no selling costs are incurred. In this market, only informative selling costs are incurred. In this market, high selling costs are spent. In this market, huge selling cost is spent as it relies more on non-price competition.
Level of Knowledge

Perfect Knowledge Imperfect Knowledge Imperfect Knowledge Perfect Knowledge

Final Thought
The correct sequence of the market structure from most to least competitive is perfect competition, imperfect competition, oligopoly and pure monopoly. The main criteria by which one can distinguish between different .