COMPARE AND CONTRAST THE CHARACTERISTICS OF MONOPOLISTICALLY COMPETITIVE, MONOPOLISTI, AND PERFECT COMPETITIVE MARKETS. PROVIDE AN ORGANIZATION THAT IS AN EXAMPLE OF EACH AND DISCUSS HOW CHANGES IN THEIR PRICING AFFECT YOUR PURCHASE DECISIONS.

A market in economics refers to a situation where potential suppliers of a commodity are brought into contact with potential buyers and a means of exchange is available.

In an economy there are different types of market structures:

1. Perfect competitive market
2. Monopoly
3. Monopolistic
4. Oligopoly

1. PERFECT COMPETITIVE MARKET.

- This is a market structure where there are many firms that are small and are relative to the entire market and produce similar products.
- Here, the price is determined by the intersection of demand and supply. Thus it is important to know factors that affect demand and supply in order to know the prices and revenues.
- Demand is affected by price of the commodity, income of the buyers, price of other products etc
- Supply is affected by the input cost, technology, research and development etc

<u>CHARACTERISICS OF PERFECT COMPETITIVE MARKET.</u>

1. Here are many buyers and many sellers in the market so that no individual buyer or seller can influence the price in the market.
2. Firms and buyers are price takers, no individual buyer or seller can influence the price.
3. There is perfect mobility of factors of production in that when the market

needs increase in output then producers are able to increase the output by hiring more factors of production required.

4. Firms sell homogeneous products thus no buyer will have any preference of a particular seller.
5. There is perfect knowledge of prevailing market conditions such that consumers, factor owners and producers will have knowledge about the market and thus no price differentials that exist.
6. Economic agents are assumed to be rational i.e consumers want to maximize utility, owners of factors of production wants to maximize rewards from the use of their factors and producers want to maximize profit.
7. Freedom of entry and exit from the industry.
8. There are normal profits in the long-run since as the firm grows it makes supernormal profits in the short run which will attract more firms to invest in it since there's freedom of entry to the market hence reducing the supernormal profits to normal profits due to increased competition.
9. There's no intervention of the government regulation such as taxes, subsidies an quotas since the prices are determined by the market forces of demand and supply.

- An example of a perfect competitive market is agricultural markets.

  In agricultural markets there are many farmers farming a similar product with the aim of selling to earn profits. There are also many buyers since most agricultural products fall under basic needs and therefore must be consumed hence makes it a close example of a perfect competitive market since it is rare to find one. An example of an agricultural product is maize. If a specific seller increases the price of maize then I as the consumer will look for a seller with a lower price but if the seller increases the price of maize due to the shortage of the maize from the farmers which will lead to the increase in input cost then I as the buyer will have to pay more since input cost does not affect a single supplier but the whole market and so both me and the seller are price takers here.

2. MONOPOLY MARKET.

A monopoly is a market structure where production is under the control of a single supplier. Monopolies have the power to determine the price at which they sell their products unlike perfect competition.

CHARACTERISTICS OF MONOPOLIES

1. Barriers to entry. Such as legal barriers, product differentiation barrier, economies of scale barrier, transport cost and tariff barriers, ownership of a strategic reserve and mergers of firms.
2. Monopolies can control the price of a commodity since they mostly run in imperfect markets where the price of the commodity is not known by the stakeholders unlike in perfect competitive markets.
3. Monopolies produce at low cost but sell at high prices so as to increase profits.
4. Monopolies experience super normal profits in the long-run.
5. Due to lack of competition, monopolies may lack the incentive to be efficient and thus end up producing low quality products at high prices.
6. Distribution of wealth under monopoly is unequal since the monopolies become rich at the expense of the consumers.
7. Monopolies leads to protection of local firms against unfair foreign competition because they will enjoy economies of scale this able to compute with imports on pricing.
8. Monopolies eliminates wasteful competition hence are able to reduce expenses on advertising and product promotion.
9. Their products have no close substitute.

- An example of a monopoly is Luxottica, which mainly deal with eyewear products. If the price of the products increase then the buyers would have no say since they have to meet their needs and since there are no other companies with the same product. So since I have an eye condition that requires me to use spectacles then I'll have to purchase them at the price in the market.

3. MONOPOLISTIC MARKET

This structure lies in between the characteristics of monopoly and perfect competition.

CHARACTERISTICS OF MONOPOLISTIC COMPETITION.

1. There are many buyers and sellers in the market.
2. There is freedom of entry and exit to and from the market.
3. Firms in the market experience a downward sloping demand curve because they have a slight control over the prices which they charge their products.
4. Firms sell similar but differentiated product. Differentiated may be in form of design, advertisement etc.
5. Within a short run, these firms will most likely make supernormal profits and this is what will attract other firms in the industry.
6. Within the long run, firms will only make normal; super normal profits will not be available. A normal profit will only enabling the firm to recover cost. Firms that are making losses quit due to stiff competition..

- An example of a monopolistic competitive market is the bathing soap companies.Here different companies produce different types of soap depending with the materials used in making the soap. A good example is imperial leather, its products are a bit expensive as compared to other soap making companies, so the demand is high due to other benefits of using the product such as the quality. So if my skin is only used to imperial leather then I will purchase it even if it is expensive so as to protect my skin. Also due to their branding method which could be better than any other soap that is cheaply available and the advertisement of the product. As a consumer I might choose to feel safe using a product I know than a product that I know nothing about it.But as an economist if the price is too high then I might want to substitute imperial leather with another brand which cheaper and has similar effect on my skin as imperial leather.

Summary of the differences between perfect competitive market, monopolistic markets and monopoly.

Perfect competitive market vs monopoly

	Perfect competitive market	Monopoly market
1.	There are many buyers and sellers in the market.	Consists of a single seller with many buyers.
2.	All stakeholders are have knowledge of the comodity's price	Only the Monopoly firm knows the price of the comodity.
3.	There's freedom of entry and exit in the market	There is no freedom of entry since there are barriers to entry so as to maintain the Monopoly firm.
4.	Price is determined by the demand and supply of the comodity.	Price of a comodity is determined by the seller
5.	The comodities here have close substitute.	Commodities here have no close substitute.
6.	Perfect competitive markets deals with homogeneous products.	Their products are unique thus there is no competition.
7.	There are normal profits in the long-run.	There are supernormal profits in the long-run.
8.	Perfect competitive market utilizes resources by producing at the level which the lowest average cost are attained.	Monopolies under utilizes resources by not producing at the optimal level.

Perfect competitive market vs monopolistic

	Perfect competitive market	Monopolistic market
1.	Firms sell homogeneous products.	Firms sell slightly differentiated products.
2.	There's no intervention of the	There's intervention of government

	government regulations such subsidies to control price since both parties are price takers.	regulations because the seller might take advantage of the buyer.
3.	Here it is assumed that there is no transport cost, that is, seller sellers do not incur transport cost hence cannot increase the prices while buyers do not incur transport cost hence do not have preference to some products	In monopolistic, transport cost is incurred since most brands have to meet consumers in different regions since the products are not similar to those of their competitors.
4.	Here, existing firms have no advantage over new ones.	Here, existing firms have advantage over new ones. In the long run they are trusted more by consumers and it becomes difficult for consumers to easily trust new firms unless the new firm uses advertisement to beware of it's existence.
5.	Require a small capital to get started.	Requires a larger capital as compared to perfect competitive market.
6.	Demand here is elastic.	Demand here is inelastic.

Monopoly market vs monopolistic markets.

	Monopoly market	Monopolistic market
1.	Consists of a single seller with many buyers.	Has many buyers and sellers.
2.	There's no competition thus save on advertising and promotion fee.	There's high competition since the firms are many in the market.
3.	They're barriers to entry in the market.	There's freedom of entry into the market.
4.	Monopolies exploit customers bt overcharging them because	Here seller's cannot overcharge customers because customers are aware

	they lack freedom of choice and have to accept what is offered.	of the price in the market and if overcharged they'll substitute the goods with others.
5.	In monopoly change in price has no effect on the quantity demanded.	In monopolistic, a small change in price will have a big effect on the quantity demanded.
6.	Monopolies require high initial capital to start the business.	It does not require a large capital to start as compared to monopoly.
7.	There there's no mobility of factors of production.	There is mobility on the factors of production since competition is stiff.