**A Comparative Analysis of Monopolistically Competitive, Monopolistic, and Perfectly Competitive Markets.**

**Name**

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The term market is versatile and can be applied in different contexts. In all definitions, it provides a framework for understanding the exchange of goods, services, or assets, as well as the dynamics of competition and consumer behavior. In economics, a market refers to a physical or virtual space where buyers and sellers interact to exchange goods and services. It may not be a physical location but can simply mean mechanisms and institutions that facilitate trade. Whereas, market structures refer to how different industries are classified and differentiated based on their degree and nature of competition for goods and services.

Markets exist all around us. Some are online and others are physical. Some involve goods such as clothes and cars while others offer services such as health care and financial advice. Markets also differ by the degree of competition associated with each. For instance, Italian restaurants differ from Chinese restaurants even though they both sell food. In contrast, the restaurant market tends to have many suppliers and selling goods that are closely related. Some markets are characterized by just a few suppliers or even sometimes one. For example, train services may be offered by one supplier who is therefore a monopolist. On the other hand, pharmaceuticals tend to be supplied by a few international corporations.

In this paper, I will delve into three types of market structures (i.e. monopolistically competitive, monopolistic, and perfectly competitive markets) and compare while contrasting their different characteristics. Finally, I will give a real-world example of each and how changes in their pricing affect consumer purchase decisions. In all the three models I will discuss in this paper, I will be assuming that the main objective of the firm is to maximize profit.

**Perfect Competitive Markets**

Under this market structure, there are many suppliers and customers and the prices reflect the demand and supply. These markets permit competition by having a large number of suppliers. Each supplier produces an output that forms a small part of the total market, and the sum of all these individual outputs represents the total production of that sector’s economy. Here I can think of barber shops as an example that depicts this type of competition.

**Monopolistic Market**

The market is described as having only one supplier who offers goods and services with no close substitutes to the public. The description, clearly shows that a monopolistic market is the opposite of a perfect competitive market in which an infinite number of suppliers operate. Therefore, we can say that a monopolistic market is where only one supplier owns all the market share and controls prices and output. There are three main reasons for the existence of monopolies; scale economies, national policy, and successful prevention of entry.

Economies of scale refer to the cost advantage that a business achieves by increasing its production scale resulting in average costs. They are sometimes referred to as natural economies since their production and cost are very high such that they alone can supply the whole market. a good example is Google.

Monopolies can also arise when a single firm receives exclusive legal privileges from the government. The effect of this behavior can temporarily allow a single firm to depict monopolistic characteristics and operate on a lower cost curve than any producer. A good example is telecommunication service.

Another reason why monopolistic firms continue to survive is their ability to successfully prevent the entry of new firms and products. Patents and copyrights are the tools used for preserving the sole supplier role. While patents are legal, some firms use predatory pricing which is an illegal practice. A good example is the national airlines.

**Monopolistically Competitive**

It is defined as a market with many suppliers who offer competing goods and services that are closely related but are not perfect substitutes. The competitive part of the name signifies that there are many suppliers, while the monopoly part signifies that each supplier faces a downward-sloping demand curve. A good example is the coffee shop which offers a slightly different coffee from the neighboring others that sell the product. They co-exist in the same sector and probably charge different prices.

**Comparison of the market structure characteristics**

A variety of market structures will always characterize an economy. Such markets market structures refer to the degree of competition in the market. There are other determinants of market structures which include; the nature of goods and services, the number of suppliers and customers, the flow of information in the market, barriers to entry and exit, and the pricing mechanism. Below is a comparison of the three market structures under these other determinants;

**Number of suppliers and customers**

In a perfectly competitive market there are many suppliers, each one small and powerless relative to the entire industry. Each of these suppliers competes with the other in acquiring a share of the market's many customers. For a monopolistic market, only a single supplier exists and has full control of the market share. However, in a monopolistically competitive market, there are many suppliers and customers, who are relatively powerless.

**Nature of goods and services**

Under a perfectly competitive market, the goods are standardized. Suppliers sell homogeneous products. It is difficult to differentiate one product from the other making the market very competitive. A good example is the service offered by barber shops. Under a monopolistic market, the products supplied by a single firm have no substitutes. This is what gives the monopoly the controlling power. A perfect example is the product offered by Microsoft. In a monopolistically competitive market, the products supplied are closely related are differentiated by either branding or color. This market gives its customers a wide variety of products to choose from. A good example of a product is coffee from different coffee shops.

**Pricing mechanisms**

The presence of many suppliers in a perfectly competitive market means that each firm recognizes its small size in the market and that its actions have no on the market price. Therefore, the firms are price takers. Meaning each supplier takes the price as given. Firms earn just enough profits to stay in business and no more. In contrast to monopolistic markets where the single supplier is a price maker since there is only one supplier and one product offered. Monopolies are profit maximizers because by changing the prices of products they sell it can generate greater profits. By determining the point at which marginal cost equals the marginal revenue they find the price that maximizes profits. Under a monopolistically competitive market, the suppliers are price makers. They sell closely related products but are differentiated giving the supplier power to charge different prices. But when one firm decides to charge higher prices, its clientele might shift to its competitors who charge lower prices.

**The flow of market information**

One of the characteristics of a perfectly competitive market is that it has a free flow of information. Buyers are assumed to have full information about the products and their pricing. Every participant in this market structure can easily get information on the products and their quality. In a monopolistic market, there is no free flow of information. Monopolies use this as a tool by hoarding secrets about production and resources to maintain their market-controlling power. Furthermore, it may use the lack of information to charge different prices to different customers in different markets. While under monopolistically competitive markets, there is a free flow of information. Buyers can easily get information about the products, their quality, and pricing.

**Barriers to entry and exit**

There is free entry and exit of firms in a perfectly competitive market. firm can enter and exit relatively easily. Therefore, firms just earn enough profits to stay in business and no more. Because if they were to earn excess profits, other firms could easily enter the market and drive profits down. With only one firm controlling the market share, there are higher barriers to entry in a monopolistic market. potential entrants are disadvantage since the monopoly has the first mover advantage and can lower prices to undercut a newcomer and prevent them from gaining market share. Since many firms are selling differentiated products in a monopolistically competitive market, there is free entry and exit. Firms do not have to consider how their decisions affect the competitors so each firm operates without fear of competition.

**How changes in pricing affect purchase decisions**

**Monopolistically competitive markets**

The main purpose of monopolistically competitive markets is to offer a variety of products to their customers. However, firms also have some pricing power due to product differentiation. Demand is highly elastic in monopolistically competitive markets and very responsive to changes in prices. Consumer purchases will change from one brand to another if their pieces increase. An example is the restaurant industry. If the restaurant increases its price, consumers may opt for alternatives with similar offerings, thereby influencing their purchase decisions. Conversely, a decrease in prices may attract customers seeking value for money.

**Monopolistic markets**

Firms in this type of market are price makers. Having this property allows them to have a controlling market power and decide on behalf of the market. Therefore, consumer purchase decisions do not matter since no close substitutes exist. A good example is Microsoft. Microsoft’s operating system changes can affect consumer purchases, but the impact may be limited due to the unavailability of direct substitutes. Consumers might still opt for Microsoft products even if their prices increase, reflecting the market's lack of viable alternatives

**Perfectly competitive markets**

In these markets, individual firms do not influence prices. Since many firms are selling the same products, a single firm has no power to control or set the price. Consumers make purchase decisions based on other factors other than price differences among products. Some of these factors include location, convenience, and after-sales service. Changes in prices across the different firms are unlikely to significantly affect customers' purchase decisions since all products are considered identical. The supermarket industry is a good example of a perfectly competitive market. If one supermarket decides to increase the prices of its particulars, then all may shift to other stores with cheaper prices.

**Conclusion**

Monopolistically competitive, monopolistic, and perfectly competitive markets may sometimes exhibit distinct characteristics that shape the behavior of both firms and consumers. The examples provided above (restaurants in a monopolistically competitive market, Microsoft in a monopolistic market, and the supermarket industry in a perfectly competitive market) illustrate exactly how these market structures influence the pricing dynamics and, subsequently consumer purchase decisions.

Understanding these market structures is essential for policymakers, businesses, and consumers alike. Policy makers must design regulations that account for the unique challenges posed by each structure, business must adapt their strategies accordingly and consumers must navigate an ever-changing landscape of choices influenced by market dynamics. Ultimately, comprehending the differences between these market structures enables a better understanding of economic interactions and decision processes.

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