**Compare and contrast the characteristics of monopolistically competitive, monopolistic and perfectly competitive markets. Provide an organization that is an example of each and discuss how change in their pricing affect your purchase decisions.**

**Monopolistically competitive market.**

This refers to market where there are firms that produce similar goods although they are not identical in nature. These goods or services act as substitutes to one another. Firms produce their goods on a monopoly in that there is no other firm that produces that exact same product. However, there are other competing products that are just identical. It is also good to note that these identical products also operate as monopolies in their respective market share. A monopolistically competitive firm differs from a monopolist in two crucial ways. One, there are many sellers in a monopolistically [competitive market](https://app.studysmarter.de/link-to?studyset=10165117&summary=67728102&language=en&amp_device_id=xliGZBmx3KgEzHuRbgeAh0). Second, there are no barriers to entry and exit in monopolistic competition, and firms can enter and exit the market as they like. These two aspects make it similar to a firm in perfect competition. Monopolistically competitive markets operate both as monopolies and perfect markets. There are unique characteristics that define this type of market which include;

1. No firm is a price-taker- basically what this means is that every firm has the freedom to set its own prices since it’s is a monopoly its product. The producer may shift the prices as he so wishes because there is no direct competition from identical products.
2. There are numerous sellers offering similar products- despite a firm being the sole producer in his product, there are other numerous sellers that produce substitute product that rival the product indirectly. The consumer can choose to use one product over the other if the price of the product is not favorable to him.
3. There are no barriers to entry or exit to the market- firms can freely enter and leave the market without any barriers. If a firm notices an opportunity in the market, they are free to come and explore it. However, if various factors no longer favor its existence in the market they are always free to leave.

Examples of monopolistically competitive markets

An example is lotion companies. Different lotions are unique in their production and ingredients. Each lotion has different composition compared to the others that is they have different textures and flavors. Every producer has the freedom to set his own price but at the same time the consumer has different options to choose from.

Another good example of this market are restaurants. There are many restaurants on the street to choose from if you live in a decently populated area. People can choose to open a new restaurant if they would like to, and the existing restaurants can decide to go out of business if it no longer makes sense to them. Every restaurant has different dishes. Even if they are of the same cuisine, the dishes are still not exactly the same and taste a little different.

How changes in pricing affects consumers purchase decision

As earlier stated, firms in this type of market operate as monopolies in their unique type of product. However, there are other firms that compete indirectly by offering identical products. This means that the consumer has options on what to purchase. So if the price of a certain product is raised customers will most likely shift to the other product which is the substitute. The opposite happens if the price of one product lowers and the other remains constant provided the quality remains the same. There are however isolated cases where the buyer’s decision doesn’t change despite changes in prices. That is what is called customer loyalty.

**Monopolistic markets**

Imagine a firm that produces hydroelectric power. There is no other firm that produces hydroelectric power except from that one. All consumers have to depend on this company for electricity. Then, one morning you wake up and find the price of electricity has skyrocketed from let’s say $1 to $200 per unit of electricity and there is you can do rather than accept. These are what we call monopolistic firms. Monopolistic firms can be described as those firms that are the only producers of a good or service.

Consumers do not have other options from where they can buy that product. They are the price setters and do not rely on the forces of demand and supply because they are the only suppliers. Monopolists also decide the number of products sold in the market. Monopolies face no competition therefore can charge higher prices without worry of other firm taking their market share.

Characteristics of monopolistic markets

1. One seller- in monopolistic market, you only have one producer that serves the whole market. The firm controls the whole market share. The firm raises or lowers prices as it wishes with no regard to the forces of supply and demand. Often, the monopoly is a large organization which has financial might or other factors that favor its sole existence.
2. There are barriers- competing with a monopoly is very difficult because there are obstacles in place that don’t favor the establishment of a new organization. The following factors help in creating entry barriers in monopolistic markets;
3. Monopoly resources- if a company is the only one that has a right to a crucial resource, it means it the only one which can produce a certain product thus leading to it becoming a monopoly.
4. Government regulations- certain companies are granted exclusive rights to produce a certain good or service by the government. This is especially if the service or good is to be used for the social growth of the community.
5. Production processes- if a certain company can figure how to produce a good/service at a cheaper price than others it will grow to be a monopoly because it will take a large percentage of the market share.
6. They are not price-takers- since they are the only suppliers of a product they can set whatever price that they feel like. Customers can feel oppressed and helpless because they do not have options.

Examples of monopolistic markets

A real-life example of a monopoly is Standard Oil, which operated from 1870 to 1911. John D. Rockefeller established Standard Oil. It started in Cleveland, Ohio, and throughout the years, Standard bought other oil refineries. Shortly after the establishment of Standard Oil, most of the rival firms were shut down due to bankruptcy.

Before Standard Oil, several other oil businesses competed with one another throughout the United States. By the beginning of the 20th century, Standard Oil had cornered nearly 90 percent of the market for oil, which made John D. Rockefeller the first person ever to become a billionaire.

Due to its monopoly power, Standard Oil was able to charge higher prices and enjoy enormous profits.

Over time, public sentiment shifted against Standard Oil and Rockefeller, and in 1911, the government of the United States took action. The Supreme Court ruled that Standard Oil must be divided into 34 different businesses to reduce its monopoly power across the United States.

How changes in pricing affects consumers purchase decision.

We have already established that monopolies can change prices of goods or services as they wish. Hiking the prices is more often the case since they have competition to rival them. Even when the prices are increased customers have no choice but to buy the products. However, if the firm’s goal is to make profit it is unwise to increase the prices abnormally because no so many consumers will be able to purchase e the products. The less quantity sold means the less revenue received. Despite the lack of options to buy from, when prices hit a certain level buying becomes unbearable and consumers choose to suffer. This is where the government must intervene and try to end the monopoly if it’s insensitive to the public.

**Perfectly competitive market**

A perfectly competitive market is an economic structure in which many businesses sell identical goods. There are no startup costs or legal restrictions.

It’s a theoretical market structure in an ideal-world scenario that couldn’t possibly exist in the modern market.

Perfect competition (otherwise known as pure competition) is unrealistic. But it’s a useful model for explaining how supply and demand impact prices and buyer and seller behavior.

Perfect competition is the opposite of a monopoly. A monopoly is where a single firm provides a unique product and high entry barrier to prevent other suppliers from competing. This could be costs and legal requirements.

For instance, utility suppliers such as natural gas and electricity companies are natural monopolies because it’s difficult for new suppliers to break into the market and provide the same services at lower costs.

In a monopolistic market, buyers have one option. Sellers have the market power to control pricing. Monopolies are also [mostly illegal](https://www.investopedia.com/ask/answers/031715/are-there-any-legal-monopolies-america-or-europe.asp) in the 21st century.

In reality, all markets fall somewhere between perfect and monopolistic competition. Both are benchmarks for comparing real-life market economies.

**The Characteristics of Perfect Competition**

Companies are said to be in perfect competition when a market exists with the following conditions:

* **Homogeneous products:** A large number of sellers produce and sell an identical product or service. For example, everyone sells the same soap to a village. It’s the only soap available.
* **Large audiences:**Many buyers are on hand to purchase the product. In our example, everyone in the village uses the same soap.
* **Information transparency:** Buyers have perfect information. All the information they need to make purchase decisions. The soap comes with a complete breakdown of ingredients, costs, and sourcing information.
* **No entry barriers:** Businesses can enter and exit the market freely. There are no start-up costs or legal restrictions, for example. Anyone in the village can start or stop selling the soap.

A perfectly competitive firm is a “price taker,” which means it can’t increase or decrease prices. It must follow the price that supply and demand levels determine.

Complete equality means no individual buyer or seller in a perfectly competitive market can affect product prices.

**Examples of Perfectly Competitive Markets: Agriculture**

Economists often use agricultural markets to explain perfect competition theory. It remains a near-perfect definition of perfect market competitiveness.

For example: Many farmers grow the same crops. Their products are largely interchangeable.

There are millions of buyers who all understand the product being offered.

The entry barriers for growing and selling crops are low. There are only basic set-up costs, for example.

Data from the [U.S. Department of Agriculture](https://www.nass.usda.gov/Publications/Todays_Reports/reports/agpr0722.pdf) shows that corn farmers received an average of $7.37 per bushel in June 2022. Wheat farmers received an average price of $9.55 per bushel.

**How change in prices affect consumers purchase decisions.**

This is determined by the market demand and supply curves of the product under discussion. The demand curve clearly indicates the total amount of a product that consumers are both willing and able to buy. On the other hand, the supply curve indicates the amount of a product that suppliers are willing and able to supply at certain market prices.

Suppliers can only supply what the consumers can consume at given prices. In a perfectly competitive market structure, the market sets the price and firms are merely price takers and therefore operate for as long as production costs fall below revenue.

In short consumers respond to the forces of supply and demand. If the demand for a product is high and supply is low, the price will rise. If one seller increases the price buyers will tend to shift to other sellers. This is due to availability of information and wide range of choices where buyers can buy from.