University of OEB **Academic Year: 2024/2025**

Department of Economic Sciences

Second Year Licence Economics

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Lecture 04: Market Structure

A **market structure** refers to the way businesses in a market compete with one another. Economists divide markets into different types based on factors such as the number of sellers, the level of competition, and the control over prices. The four main market structures are **perfect competition, monopoly, oligopoly, and monopolistic competition**.

1. Perfect Competition

In a **perfectly competitive market**, there are many small businesses selling the same product. No single company has control over the price because all sellers offer identical goods. Consumers can easily switch from one seller to another, and new businesses can enter the market freely. **Examples** of this type of market include agricultural products like wheat and rice, where many farmers sell the same kind of product.

2. Monopoly

A **monopoly** exists when a single company controls the entire market. In this case, there are no competitors, and the company can set high prices without worrying about losing customers. Monopolies often exist in industries where it is difficult for new businesses to enter, such as electricity or water supply. Governments sometimes regulate monopolies to prevent unfair pricing. **Example:** A national electricity provider that is the only supplier in a country.

3. Oligopoly

An **oligopoly** is a market dominated by a small number of large firms. These companies sell similar or slightly different products, and their pricing decisions affect each other. Competition exists, but it is limited. Oligopolies are common in industries where starting a business requires a lot of money and resources. **Examples** include the automobile industry (Toyota, Ford, and Volkswagen) and the smartphone market (Apple, Samsung, and Huawei).

4. Monopolistic Competition

In a **monopolistic competition**, many companies sell similar but slightly different products. Unlike perfect competition, businesses in this market can set their own prices because they offer unique features, branding, or customer service. **Examples** include fast-food restaurants and clothing brands, where different companies sell burgers or jeans, but each brand tries to stand out.

Conclusion

Understanding market structures helps businesses and policymakers make better economic decisions. Each market type affects prices, competition, and consumer choice differently. Some markets encourage competition, while others give companies more control over prices.

Reading Comprehension Questions

A. True or False

1. ___ In a perfectly competitive market, one company sets the price for all products.
2. ___ A monopoly exists when there are many sellers offering the same product.
3. ___ An oligopoly is controlled by a few large companies.
4. ___ Fast-food restaurants are an example of monopolistic competition.
5. ___ In a monopoly, new businesses can easily enter the market and compete.

B. Short Answer Questions

1. What is a **market structure**?
2. What are the four main types of market structures?
3. Why do companies in perfect competition have no control over prices?
4. Give one example of a monopoly and explain why it is considered a monopoly.

5. How do businesses in monopolistic competition try to stand out from their competitors?

Vocabulary Section

A. Match the Words with Their Definitions

Match each economic term with the correct definition.

1. **Perfect competition**
2. **Monopoly**
3. **Oligopoly**
4. **Monopolistic competition**
5. **Market structure**
6. **Inflation**

a) A market with many sellers offering slightly different products.

b) A market with many small firms selling identical products.

c) A situation where a few large companies dominate an industry.

d) A market controlled by a single seller with no competition.

e) The way businesses compete in a market.

f) A general increase in prices over time.