Chapter Five Market and Market Structures

1- What is the market?

The market is defined as the space or place where sellers of goods or services meet with their buyers, whether this meeting is in the same place or through means of communication, and this space can be a village, neighborhood, city, country, or region, and it may include the entire world.

In the classical theory, the market is a theoretical place where supply meets demand, and prices are determined in light of the relationship between them.

The markets are divided into different sections according to the purposes they perform. “In terms of their continuity, they may be permanent, such as the stock market, or temporary, such as village markets and exhibitions, or limited in time (daily markets, weekly markets, etc.),

In terms of their expansion, they may be local, such as city markets (nearby markets), or global, such as the sugar market. In terms of the types of traded commodities, the markets are divided into various sections. Each commodity or group of commodities has its own market, including real estate markets, foreign exchange markets, and agricultural crop markets such as wheat and rice. And markets for industrial products such as iron and steel, machinery and others. In terms of the purpose of using the commodity, it refers to the market of production commodities and the market of consumption commodities, and in terms of the quantities traded in the market to the wholesale market and the retail market,...etc. ».

The market is a meeting place, where the offers of the sellers meet with the requests of the customers, where a specific price is determined for a particular commodity.

The market is a means of comparing supply and demand to achieve the exchange of services, goods or capital.

Supply: Refers to the amount of goods and services that sellers are willing to sell at a given price.

Demand: Demand refers to the amount of goods, services or capital that buyers are able and willing to buy at a certain price, according to their income and preferences.

2 divisions of market structures

The nature of the markets is what determines the costs of production, sales, and thus profits for the institutions, and the industry structure is divided into four sections:

A- Perfectly competitive market:

In this context, we will talk about the concept of perfect competition, balance in its market, and the importance of the model as a standard reference

A perfectly competitive market is defined by three elements; Stochastic atomicity, transparency, and homogeneity.

-Equivalent offspring: “The consumers and producers present in the market are very numerous, and the presence of many economic actors leads to the individual decision losing any effect. And the influence of each consumer on aggregate demand is reduced to zero..

- Transparency: the market is transparent in terms of the components (quantity supplied, demand structure and prices);

- Homogeneity: Homogeneity means the possibility of any unit replacing the other in satisfying the same need

There are no quality differences that lead to market segmentation.

As for live examples of the market of perfect competition, where the traditional example is the financial market, as each issuance of financial instruments represents a small part of the mass of circulating capital in the world, and financial markets such as (Wall street.) allow a large number of bidders and buyers to meet. And the financial instruments are homogeneous, as no one is strong enough to influence the interest rate.

B . market monopoly

In this context, we will talk about the concept of total monopoly, its divisions, balance in its market, and its effects.

•Concept and characteristics

Monopoly is the opposite of competition, and its literal meaning is the existence of a single seller, and his commodity has no close alternative, and the fact that an inelastic demand curve is close to an inelastic demand curve, in addition to the presence of large entry barriers as well as the confidentiality of information, as it is about cost, price and quality are all information kept by the producer It is clearly not publishable. We note here that complete monopoly is not related to reality, "It does not mean that the monopolist is not exposed to competitive pressures at all, as (Wilcox) indicated that there are different degrees of competition that appear even in the case of monopoly."

• . Types of monopoly

¬ In terms of source: legal, actual and natural.

The legal monopoly "is the source of a privilege granted by the public authority to the monopolist, which may be due to patents, as it gives him the absolute right to produce the commodity if he develops it"; The actual monopoly

It is available in the case of practically no competition due to the enormity of the project for the monopolist, and his control over most of the natural resources to produce the commodity, for example (Shandard Oil Company) controls more than 80% of the petroleum resources; As for natural monopoly, it arises because of the nature of some projects, which cannot bear the establishment of more than one project (public utility projects such as water, electricity and transportation).

¬ In terms of the monopolist person: public and private

Public monopoly: It is assumed by the state as a state monopoly on the purchase of tobacco. As for private monopoly: it is assumed by individuals and private bodies, and includes all legal and actual monopolies.

Proceeding from the types of monopoly, we conclude its most important reasons represented in the monopolist's control of the raw materials necessary to manufacture his commodity, or the monopolist's enjoyment of a huge commercial name, or his possession of a legal privilege and patents, provided that he monopolizes all patents related to his circle of activity, or the monopoly is due to the state's invention of a type of Industries whose costs are huge.

Most of the markets located in the world today operate in markets that lie between the two extremes, as we distinguish two types of intermediate states in the incomplete structure of the industry; Oligopoly and monopolistic competition.

C. Monopolistic competition

In this context, we will talk about the concept of monopolistic competition and its characteristics, the balance in its market and its economic effects.

- **Concept and characteristics**

The structure of monopolistic competition takes away from absolute monopoly the ability of the producer to find an independent market, through advertising, as the products are similar in terms of content but different in form (brands, trademark).

The basic characteristic of this model is product differentiation in contrast to perfect competition, which produces standardized products. But it takes away from perfect competition the large number of producers, albeit fewer, and the lack of influence of the decisions of the individual enterprise on the market, in addition to the fact that the demand

curve is very flexible, which limits monopoly power as a result of the existence of close alternatives, as well as the ease of entry and exit to and from the market.

Allocational inefficiency appears in this model, since monopolistic competitors fail to produce at that level which yields the lowest average long-run total cost of reproduction for their number, the sales of each of them are below their optimum capacity level; According to this point of view, the presence of petrol stations, restaurants, and other similar establishments in adjacent locations is an indicator of economic loss, which is generated by monopolistic competition.

D. Oligopoly

In this context, we will talk about the concept of oligopoly as one of the sections of the market structure, and how to balance it, while giving realistic examples of it in the same context.

Oligopoly means the establishment of a small number of producers, so that each of them produces a large proportion of the total output, without agreeing among themselves to determine the quantity of production or the selling price. This phenomenon has become one of the dominant phenomena in the world.

Perhaps a good example of oligopoly is the American petroleum industry, where eight companies have dominated in recent years nearly 60% of the volume of the petroleum refining industry. In the USA, three local companies dominate: Generale Motors, Ford, and Chrysler. In addition to a few foreign companies in the auto industry, Generale Electric and Westing House also dominate the manufacture of many types of spare parts for electrical appliances.

Among the characteristics of oligopoly are:

The existence of oligopoly is linked to entry barriers set by the existing institutions, and economies of scale may be considered one of the most important barriers to entry, as the

potential competitor is not able to start small and then fall to the optimal size, as well as the restrictions required by the government and the restrictions of invention.

_______ There are possibilities of heterogeneity in the commodity, or what is called discriminatory oligopoly (cigarettes, medicines). Here, competing institutions that produce disparate commodities use model, advertisements, and technological distinction as weapons to compete with each other. These features of differentiated oligopoly are sometimes similar to monopolistic competition. There is also the possibility of homogeneity in the commodity, and it is called the non-discriminatory competition of the few (cement, iron), and here the price competition becomes negligible.

__________ "Strategic interdependence between institutions, as the behavior of one of them follows the reactions of others. For example, the price set by the Peugeot group for its cars is not related to Peugeot's decision alone, but also to the actions of the main competitors, Chrono." This is because the increase in the share of one of them is at the expense of others. Which explains that prices are characterized by inflexibility or rigidity.