

Firms in Competition

Market structure Characteristic	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly	Natural Monopoly
Number of firms in (or dominating) the industry	Infinite number of small firms	Very many small firms	Few firms (2-10) dominate	One	One
4 firm concentration ratio	0 %	0 – 10 %	40 – 100 %	100 %	100 %
Description	Very competitive Unconcentrated	Competitive Unconcentrated	Interdependent Quite concentrated	Uncompetitive Very concentrated	Uncompetitive Very concentrated
Barriers to entry	None	None	High (unless market is contestable)	High (unless market is contestable)	Very high (huge fixed costs)
Branding	None (homogenous product)	Some	Heavy	Some	Some
Pricing strategy	Short run profit maximisation: (MC=MR)	Short run profit maximisation: (MC=MR)	Short run profit maximisation: (MC=MR, collusion) Long run profit maximisation: Predatory pricing Limit pricing	Short run profit maximisation: (MC=MR) Long run profit maximisation: Limit pricing	In UK: RPI – x regulation
Optimal efficiency?	Allocative (: P=MC) Productive (: AC minimum) X efficient	X efficient	Dynamic (: product improvement)	Dynamic?... (...but X inefficient)	Dynamic (imposed by Regulator)
Example (in UK)	Foreign currency Stock market	Restaurants Pubs B & Bs Hairdressers	Banking Cars Food retail Petrol retail	Live Premiership TV (Sky) Computer Operating Systems (Microsoft) Viagra (Pfizer) Natural diamonds (de Beers)	Water supply Electricity supply Gas supply Network Rail

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