

## **Business Plan Part 4 Market Structure**

In Lessons 2 – 4 you established your product and form of business organization, looked at supply and demand, projected costs and elasticity. Now you must describe the type of competition your product will face in the market place.

Page Nine – Write one page that describes the market structure for your product. Will you face perfect competition, monopolistic competition, an oligopoly market, or will you have a monopoly? How much control will you have over the price of your good? Will you need to advertise? What types of government regulation or assistance are present in the market for your good?

## Transparency #1

### Monopoly and Oligopoly

Market Structure	Number of Firms	Product	Control Over Price	Non-Price Competition
Monopoly	One	One of a Kind	Complete/ Regulated	No Need
Oligopoly	Few	Identical or Slightly Different	Use of Price Leadership	Use of Advertising

#### Examples:

##### Local Electric Service – Monopoly

- The government grants a public franchise so there are no competing firms
- There are no close substitutes for the good they produce
- Because there are no competitors they can control price, but the government will regulate their profits to keep prices fair
- They have no need to advertise, but may try to create a good image

##### Automobiles – Oligopoly

- There are only a few firms that produce their good
- Goods are slightly different
- Use of price leadership: When one firm lowers price, others usually follow
- Extensive use of advertising to create loyalty in consumers

## Transparency #2

### Regulation of Monopolies

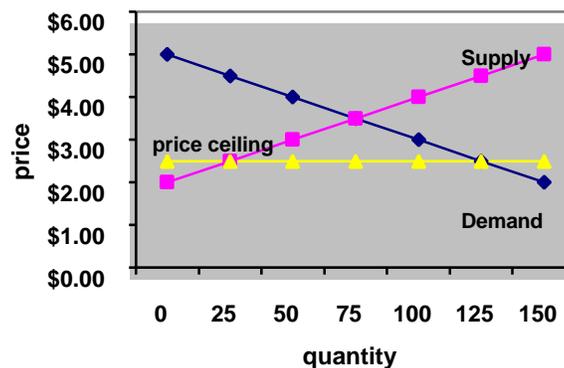
The government grants monopolies (public franchises) because sometimes it is less expensive for one firm to provide the good, than two or more firms.

The average total costs of these monopolies are so low, that other firms cannot compete.

The government regulates public franchises by establishing price limits or price ceilings on their goods or limited profits.

A Price Ceiling – the highest allowable price; established below market price.

**Monopoly With Price Ceiling**



**Market Price is \$3.50**  
**Price Ceiling is \$2.50**

Notice that at the price ceiling supply is 25, but demand is 125 causing a shortage.

Because price ceilings can cause a shortage, the government can instead limit the amount of profit the firm can earn in a given year. If the public franchise should earn more than the allowable profit, they must refund their customers.

## What Market Structure Am I?

**Directions:** For each of the following, identify the market structure in which the firm operates and justify your answer by listing the characteristics of that market structure.

1. “Our business faces fierce competition. There are just so many other companies and new ones enter the market everyday. We spend a great deal of money on advertising to remind our customers how unique we really are.”

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2. “We don’t feel that our prices are at all unfair, after all we went to great lengths to secure our resources.”

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3. “I don’t bother with advertising, after all everyone in the market sells the same thing I do. Besides, it would just eat up what little profit I make.”

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4. “We know we charge a fair price, just look at our competitors. If they feel it is necessary to lower their price, we will too.”

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5. “We may be the only company in town, but the government regulates us, so consumers know they are getting a fair price.”

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6. “I’d like to raise my price, but then no one would buy my product.”

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7. “Even though there are many flavors of cereal, there are only three of us that produce it.”

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8. “Sure, a lot of other companies make what we make, but we feel our product has the best quality.”

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9. “Even though our product is not very scarce, we are the only producers of it, therefore we can control the supply in the market.”

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10. “They say consumers are better off in our market, but so many of us go bankrupt, I don’t think it is fair.”

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