4 MARKET STRUCTURES AND HOW THEY OPERATE

Perfect Competition Market Structure:

Street food vendors are a near-perfect example of Perfect Competition Market Structure, although, generally, the concept of the perfect competition market is not exactly a reality.
"The market price in perfect competition is not determined by the sellers, but purely rides on the merit of the product. Safe to say, then, that perfect competition exists mostly in theory, with the exception of a few, isolated cases."
Their products are homogeneous in nature, and they are priced accordingly. Consumers are free to make purchases at any vendor they prefer, and entry/exit barriers for sellers are virtually non-existent. I'll explain that a bit more when discussion the assumptions…

The model of perfect competition is based on:

1. **Many sellers and buyers**

   For street vending, this is good for the buyer, who can sample and choose at will what they consider to be the best source of good street food. And vendors need to be crafty and unique if they want to stand out in this flooded market.

2. **Product homogeneity**

   Vendors are pretty much selling the same thing – street food. You can't really tell one taco from one vendor to the next. If you can tell the taco (in this example) is truly special and unique, that vendor can actually set its own prices. But competition is great, and people do love their tacos.

3. Free exit and entry of firms

You no longer want to sell tacos or hot dogs from a truck? You are free to leave this business. No strings attached. You are thinking you'd like to sell your organic ice cream from a truck over the summer? Dive right in. There are thousands of food trucks and street vendors. No restrictions.

4. Profit maximization

This is THE goal for all street vendors.

5. No government regulation

The government does not intervene with tariffs or rationing. Of course, there are sanitary regulations stipulated and enforced upon street food vendors by the Board of Health. This isn't the 18^{th} century…

6. Perfect mobility of factors of production

Street vendors are not unionized (with tens of thousands of them working the beat daily, one wonders how they could be…) Skills are learned easily, raw materials are not monopolized, and your average everyday street vendor can work as many food trucks whenever and wherever they wish.

7. Perfect Knowledge

Word on the street gets around. Vendors and buyers alike will have first-hand knowledge of the market. Tacos cost on average between 3 and 5 dollars apiece. No surprises there.

How are prices determined:

Good old-fashioned supply and demand – and the market itself. It's pretty simple; if Max's Taco Truck sells his tacos at $3.00 apiece or 2 for $5.00, and he throws a side of rice and a churro in there for good measure, and Juan's Taco Paradise, one block over, sells his tacos at $4.00 apiece and does not add the rice nor the churro, chances are folks will walk that extra block for Max's cheaper tacos.

If, however, Juan's is the only taco truck for a city mile, he can pretty much set his price however he wants because the taco pickin's during lunchtime in this section of town are slim. "If, at any particular price, demand and supply are equal, the buyers and sellers both remain satisfied, for at the said price the sellers supply what the buyers demand, and the buyers demand what the sellers supply."

What prevents Max's Taco Truck from seeking higher profits is the high number of vendors. You must stay competitive in your prices in a flooded market.

Part A2 Monopoly Market Structure

State-owned Indian Railways was, until recently, a monopoly.

Assumptions of a Monopoly:

One seller and many, many buyers.

Difficulty of entry of new firms

They are the price maker.

No close substitutes of the product sold

Indian Railways was the largest and busiest in the world, transporting over 6 billion passengers and 750 tons of freight annually. In 1951 all the railroad systems were nationalized as one company. The barrier is the railways were all lumped together by the country's government. The government decides when the price of a ticket or the price of moving freight needs to change. With no competition, there is no need to regulate the cost.

Part A3: Monopolistic Competition Market Structure

L'Oréal, the world's biggest cosmetic, beauty, and skin care seller, sells differentiated products having many close substitutes. As with perfect competition, the assumption is similar with monopolistic competition in that there are very many firms in the industry, in this case, cosmetic and skin care companies.

There is free entry and exit of firms in response to profits in the industry. If companies are making money selling, for instance, cruelty-free brands of cosmetics, this sends a signal to other firms to enter this industry and create similar cruelty-free products.

There are economies of scale in production and imperfect substitutability between products.

Differentiation can be the way things are packaged, whether or not they are cruelty-free, or whatever is new on the cosmetics scene.

Part A4: An Industry Operating in an Oligopoly Market Structure

As discussed earlier in the week, Apple computers is a fine example of an oligopoly, where Apple is big enough to affect the market, and they respond to their competitors' prices and they, consequently, respond to Apple's. Apple and Windows are the two firms cornering the market in computer systems. These two companies are not engaged in price competition, but the firm with the largest market share sets the price. They both sell computers, of course, and work within a different system. Because windows and Apple are such giants, entry is extremely difficult.

The relationship between these two firms is an interdependent relationship. Neither firm can act independently in that they both keep a close eye on the reaction of its closest rival.