Monopolies

Principles of Microeconomics

Perfect Competition

Has:

- A lot of companies
- Same product produced
- Product sold for same price
- Companies sell a little of the product (each company has a little part of the supply)
  - Result: No company can dominate the market

Requirements for Perfect Competition

1. Many Buyers and Sellers
2. Sellers offer identical products
3. Buyers and sellers have good information about products
4. Companies are free to start business or stop business (enter or exit freely)

1. Many Buyers and Sellers

This stops companies or certain buyers from controlling the market

2. Identical Products

- Commodity – something that is the same and it doesn’t matter who sells it
    - Commodities are identical products
  - Milk is Milk
    - It doesn’t matter what fat cow it comes from

3. Informed Buyers and Sellers

- Sellers give all the information about a product
- Buyers have all the information about a product

Result: The best decisions can be made and nothing is hidden

Free Market Entry and Exit

Says:

If I Make money – I am able to continue business

If I Don't make money to run company – I am able to quit

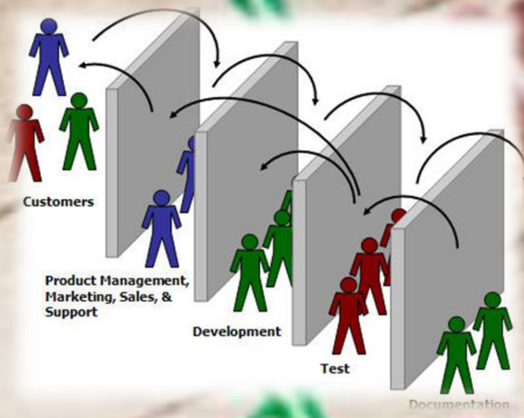
Usually – When more companies enter, they lower the price of a product

Barriers to Entry

1. Start-Up Costs

-You have to put money into a business before it can start

-The higher the start-up costs, the less likely a market is to be perfectly competitive



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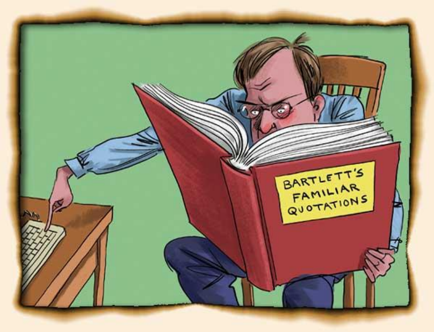

2. Technology and Education

- Some markets require more technology and education to be successful
- A Company with better technology and skilled/education workers will have less barriers