

**Theory of Firms:**

**Market Structures**

# Firm

A firm is a for-profit business organization—such as a corporation, limited liability company (LLC), or partnership—that provides professional services. Most firms have just one location.

However, a business firm consists of one or more physical establishments, in which all fall under the same ownership and use the same employer identification number (EIN).

# Theory of the Firm

The theory of the firm refers to the microeconomic approach devised in neoclassical economics that every firm operates in order to make profits.

Companies ascertain the price and demand of the product in the market, and make optimum allocation of resources for increasing their net profits.

# Market Structures

## Market Structure - Meaning and its Forms

The Market structure refers to all such arrangements or systems that bring contact among buyers and sellers to settle the purchase and sale of goods.

Tutor's Tips

Forms of  
Market Structure

1 Perfect Competition

2 Monopoly

3 Monopolistic Competition

4 Oligopoly

# Market Structures



# Market Structures

## MONOPOLY

- There is only 1 seller for a particular product/service
- Has complete market control
- Market forces become irrelevant here

## OLIGOPOLY

- This market features few companies
- No clarity on no. of firms but usually 3-5 dominant firms set norm

## PERFECT COMPETITION

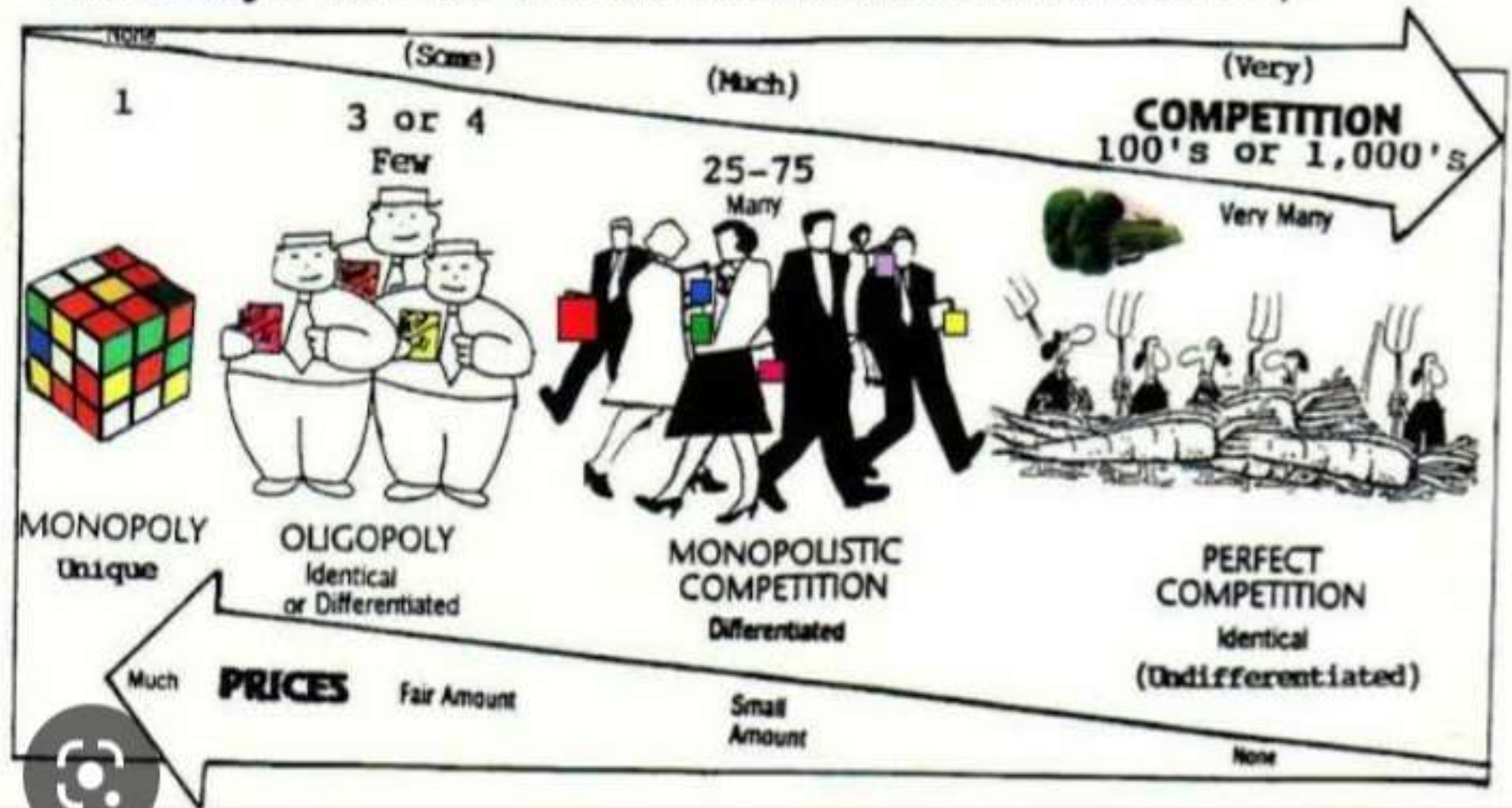
- This market has many number of sellers & buyers
- No entry or exit barrier
- Sell homogeneous goods & services

## MONOPOLISTIC COMPETITION

- It is combination of monopoly & competitive market
- offer similar product/service but they are slightly differentiated from each other

# FOUR MARKET MODELS

The **4 major markets** that characterize the American economy.



# Market Structures

## Monopoly

*[mə-'nä-p(ə-)lē]*

A market structure where one seller or producer is the sole supplier of a good or service in a market.



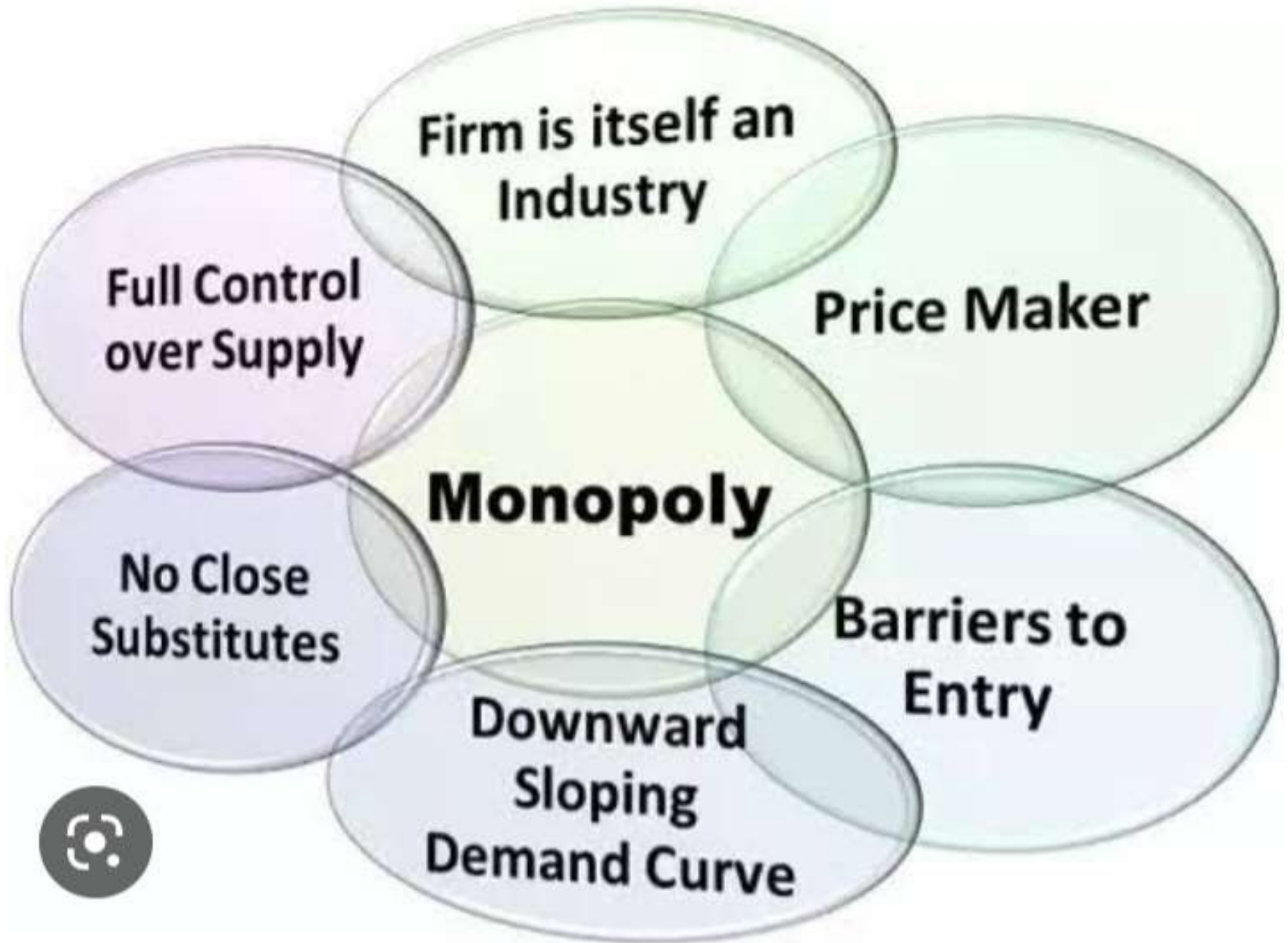


# Market Structures

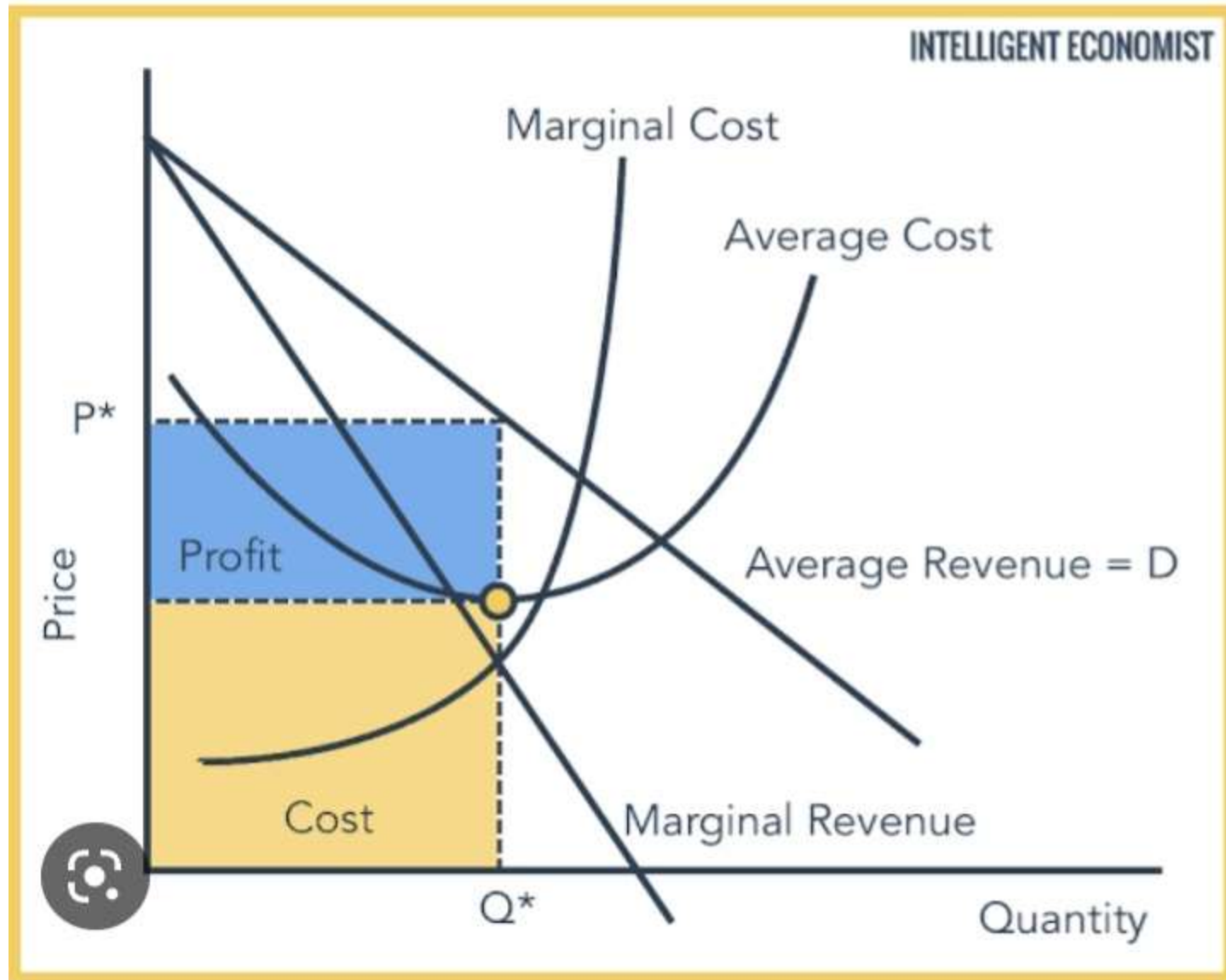
## MONOPOLY



# Market Structures



# Market Structures



# Market Structures

## What is oligopoly?

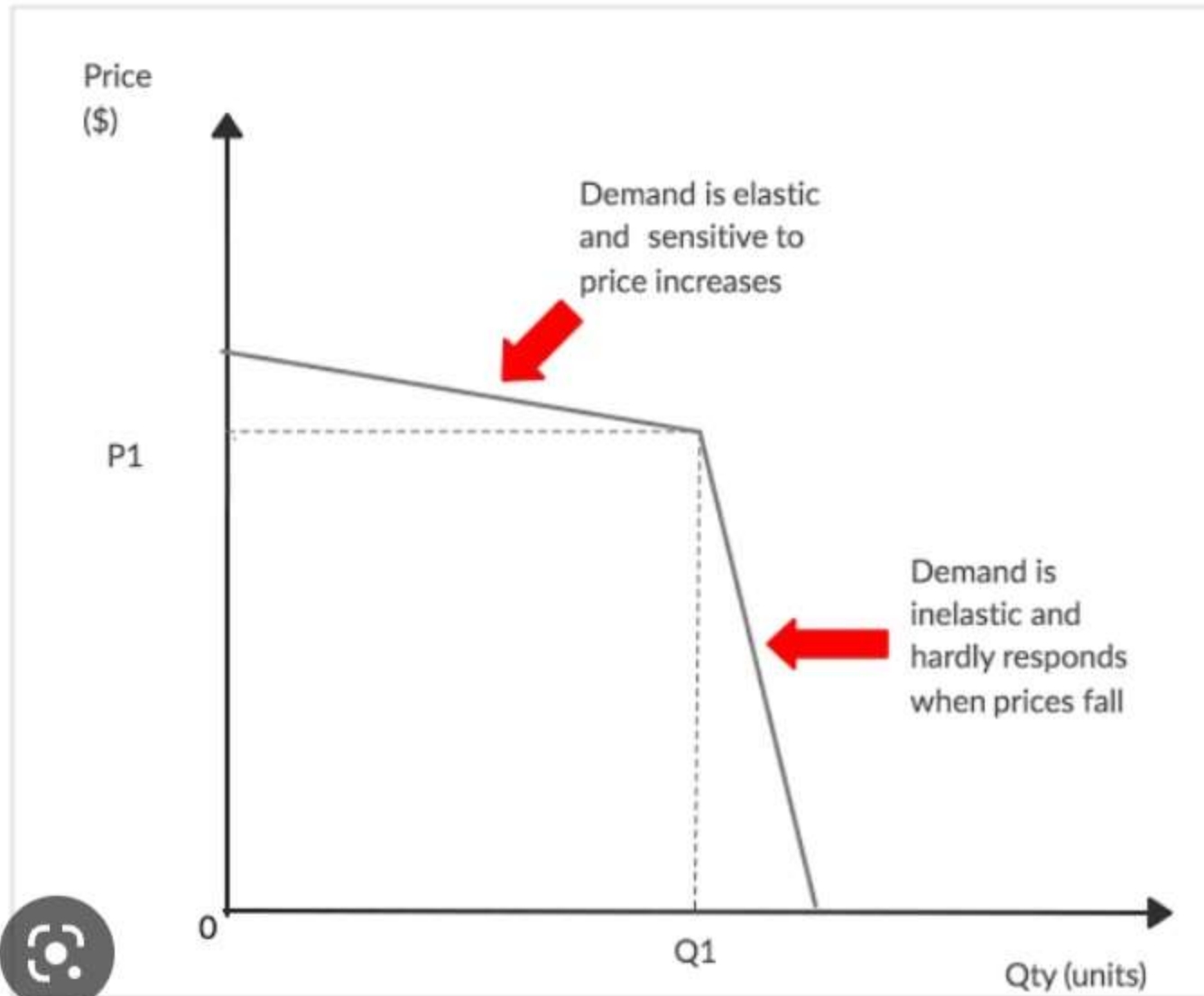
- few sellers
- either homogeneous or a differential product
- difficult market entry

# Market Structures

## Characteristics Of Oligopoly



# Market Structures



# Market Structures



## Perfect Competition

*[pər-fikt ,käm-pə-'ti-shən]*

A theoretical market structure in which there are no monopolies.

# Market Structures

## Perfect Competition



Market

Sellers

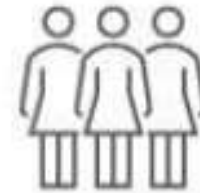


Initiate the buying and selling mechanism



No restrictions

Absence of direct competition



Buyers



Sells product at identical  
market price





# Market Structures

## PERFECT COMPETITION

Many buyers and sellers

No barriers to entry

Perfect knowledge of prices and value

Identical products

All products are equal value

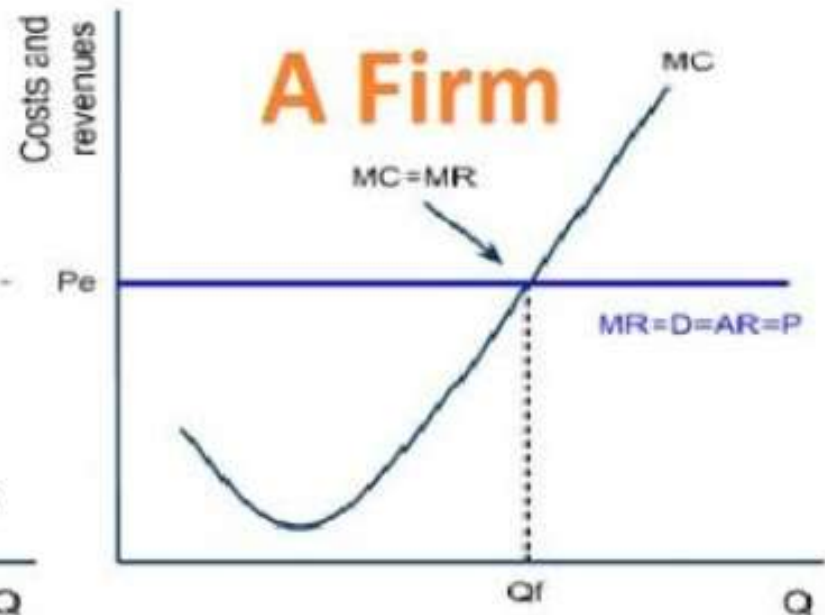
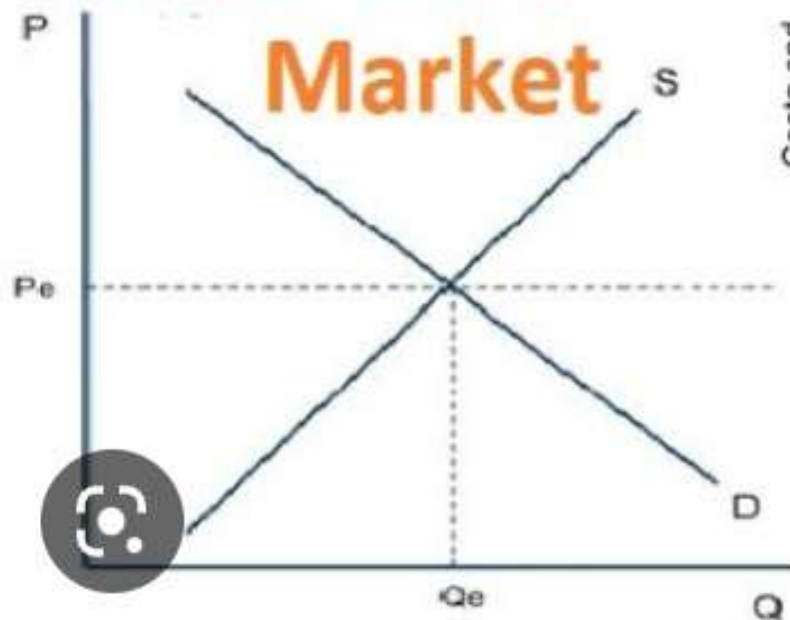
No seller has market power

No transaction costs



# Market Structures

## Perfectly Competitive Market



# Market Structures



## Monopolistic Market

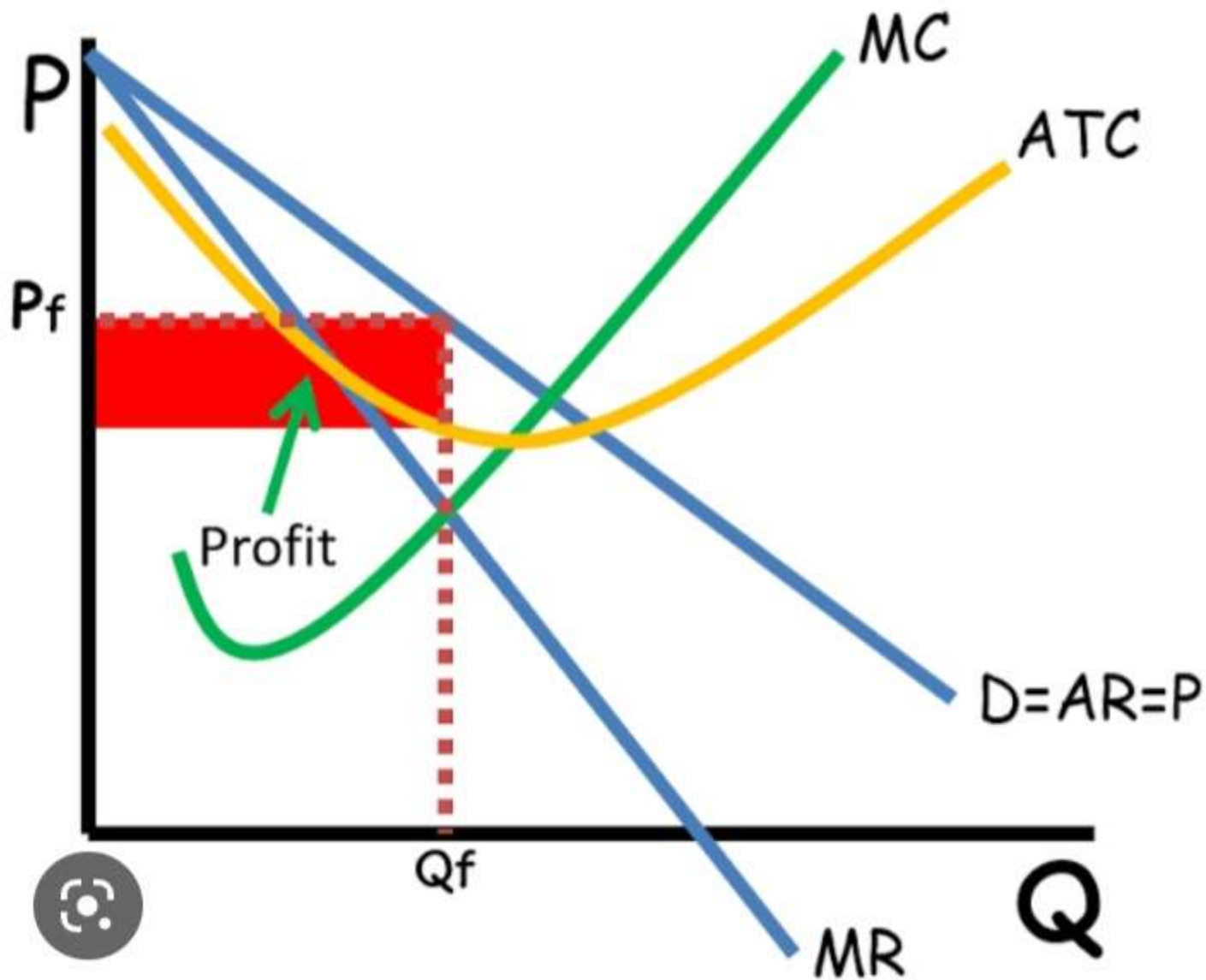
*[mə-,nä-pə-'li-stik]*

An industry in which many firms offer products or services that are similar (but not perfect) substitutes.

# Market Structures



# Market Structures



# Market Structures

