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.

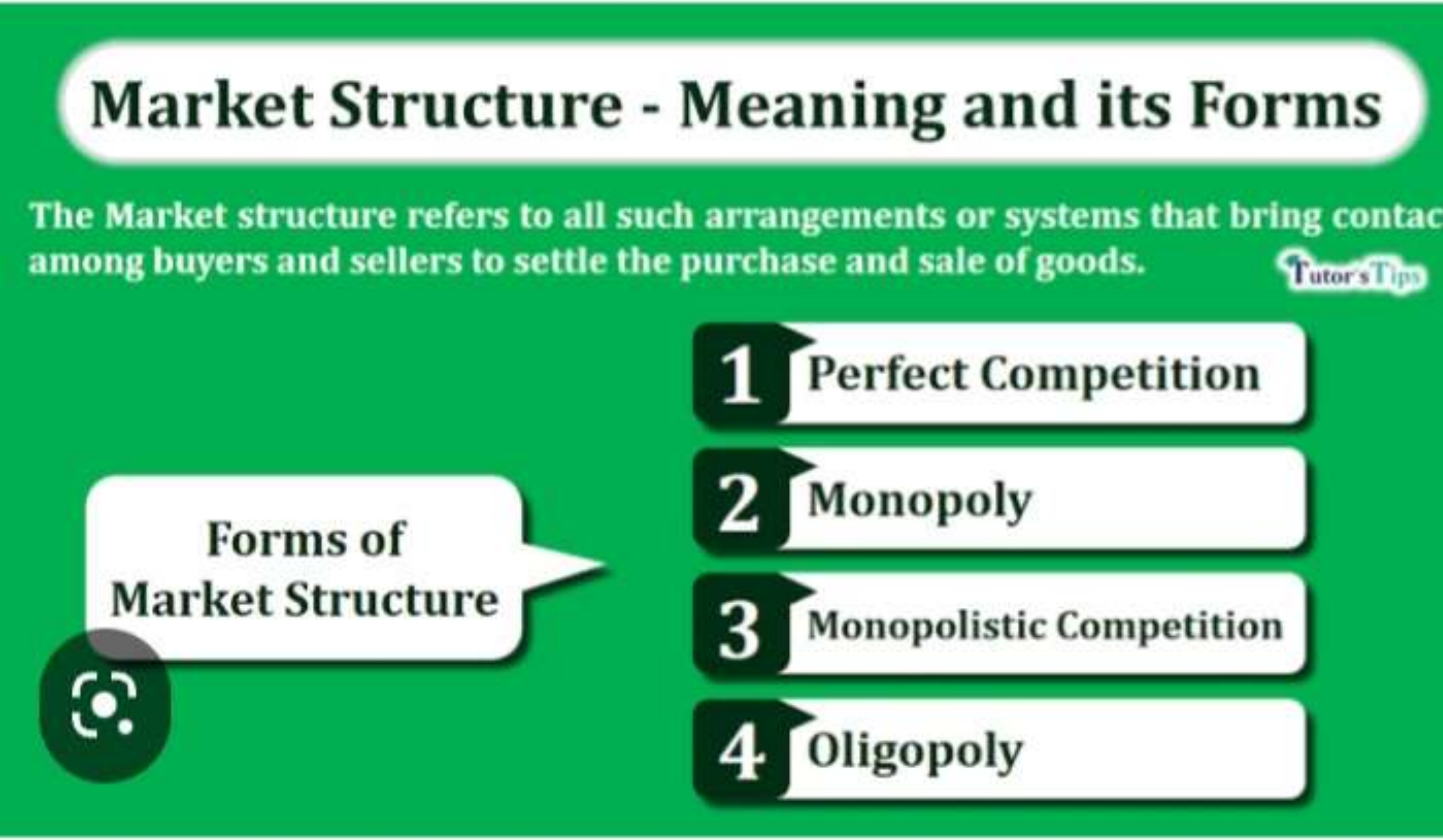
However, a business firm consists of one or more physical establishments, in which all fall under the same ownership and use the same employer identification number (EIN).

Theory of the Firm

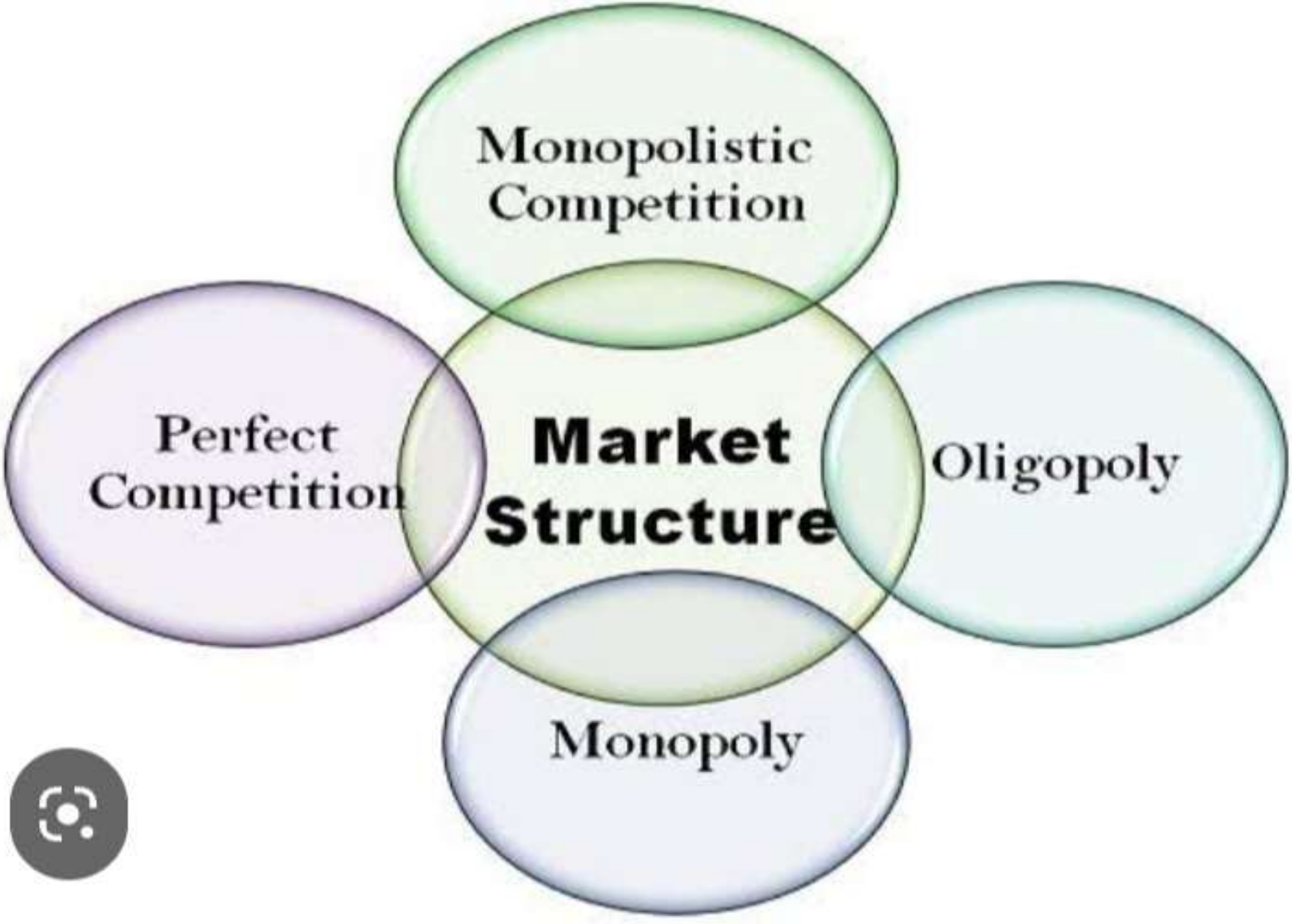
The theory of the firm refers to the microeconomic approach devised in neoclassical economics that every firm operates in order to make profits.

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 Structures



Market Structures

MONOPOLY

- There is only 1seller 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

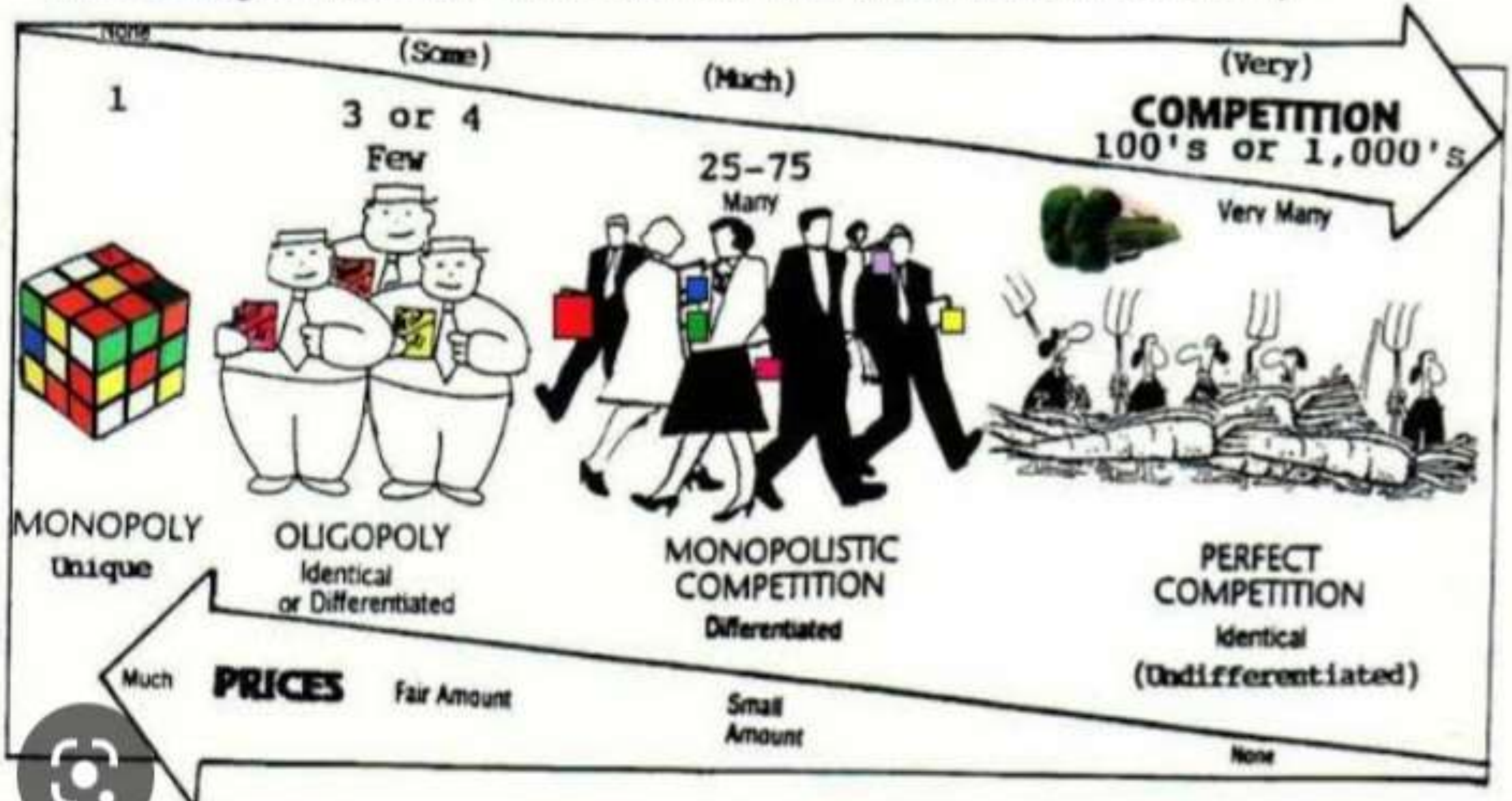
- This market has many number of sellers & buyers
- No entry or exit barrier
- Sell homogeneous goods & services

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

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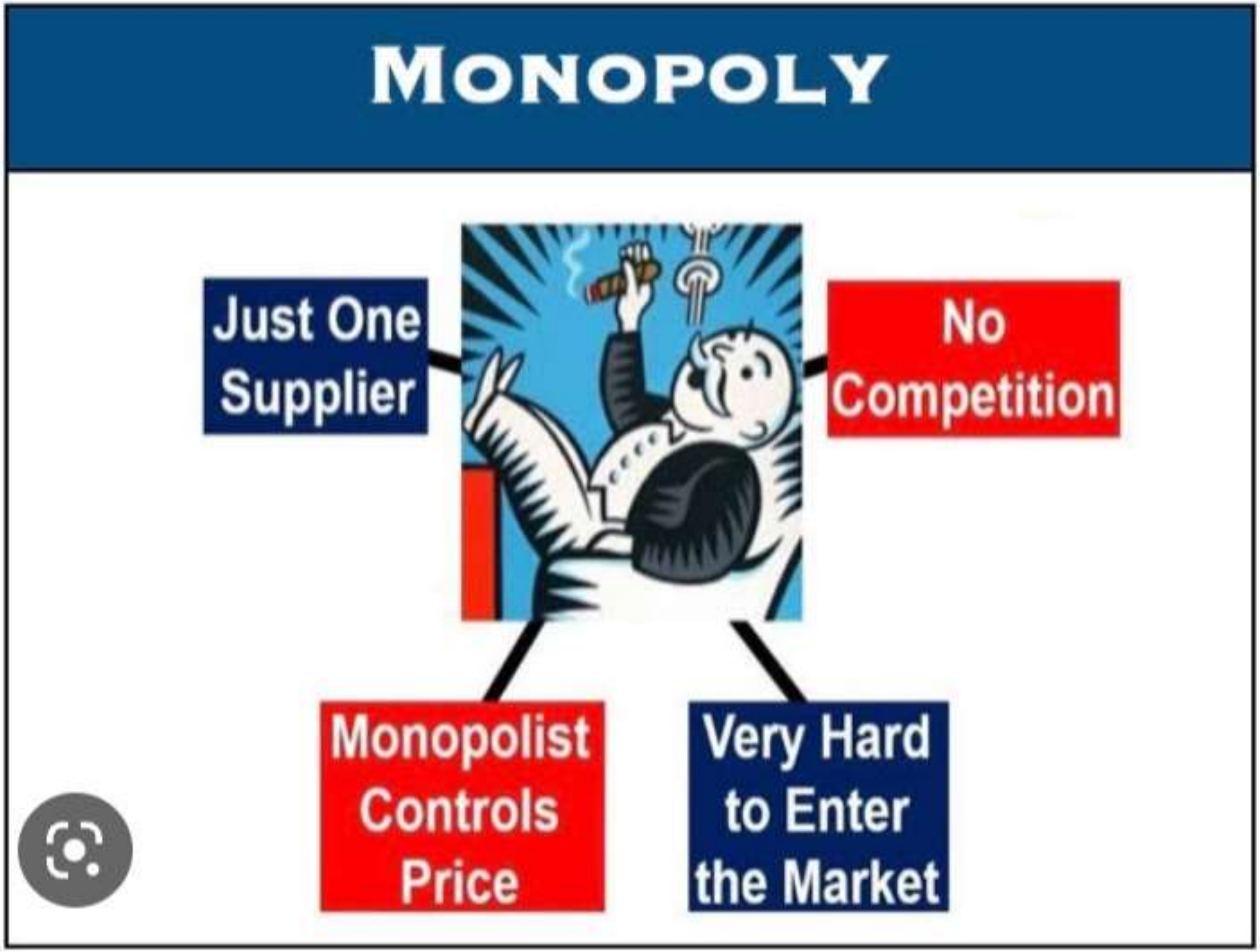

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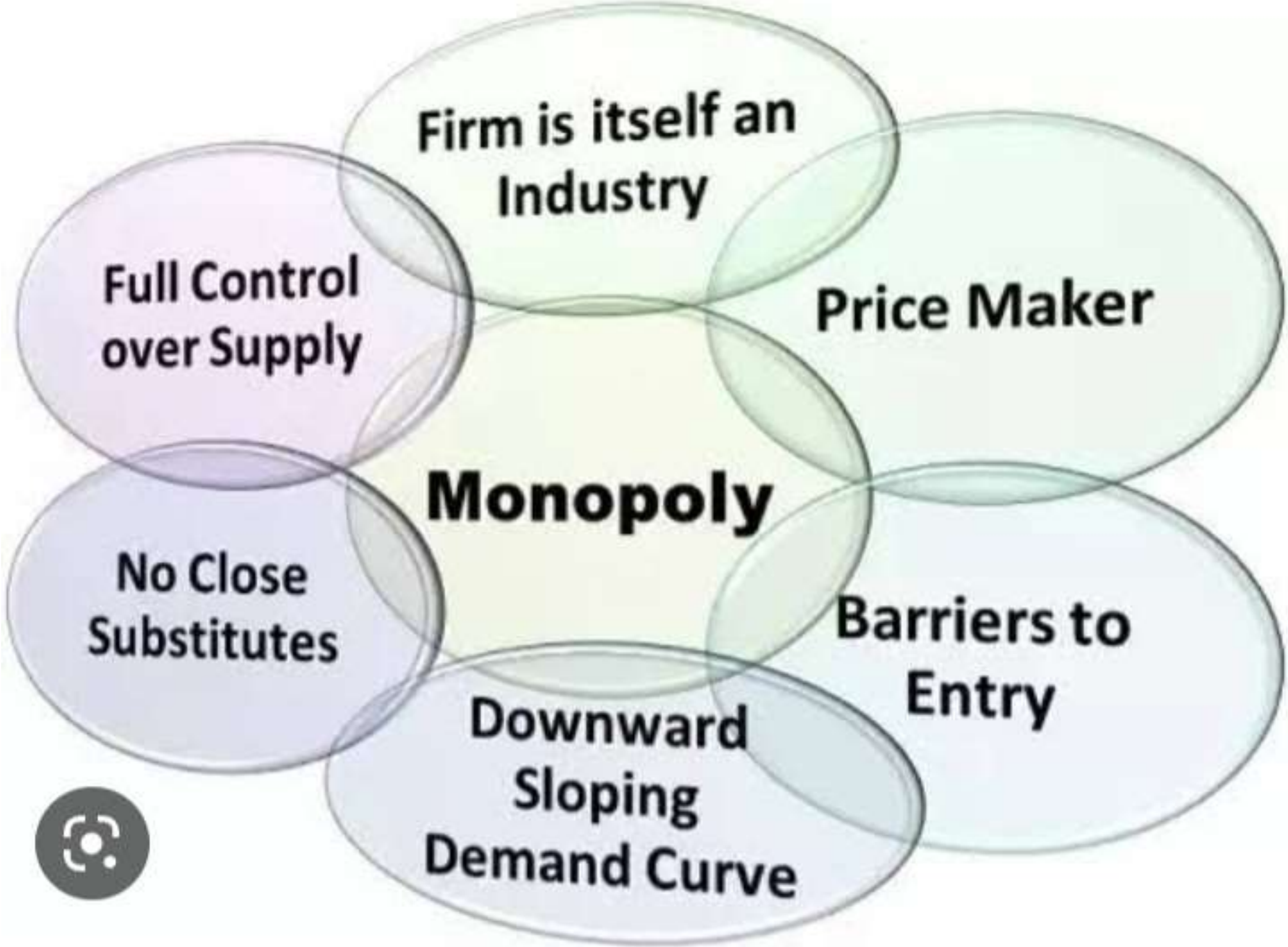

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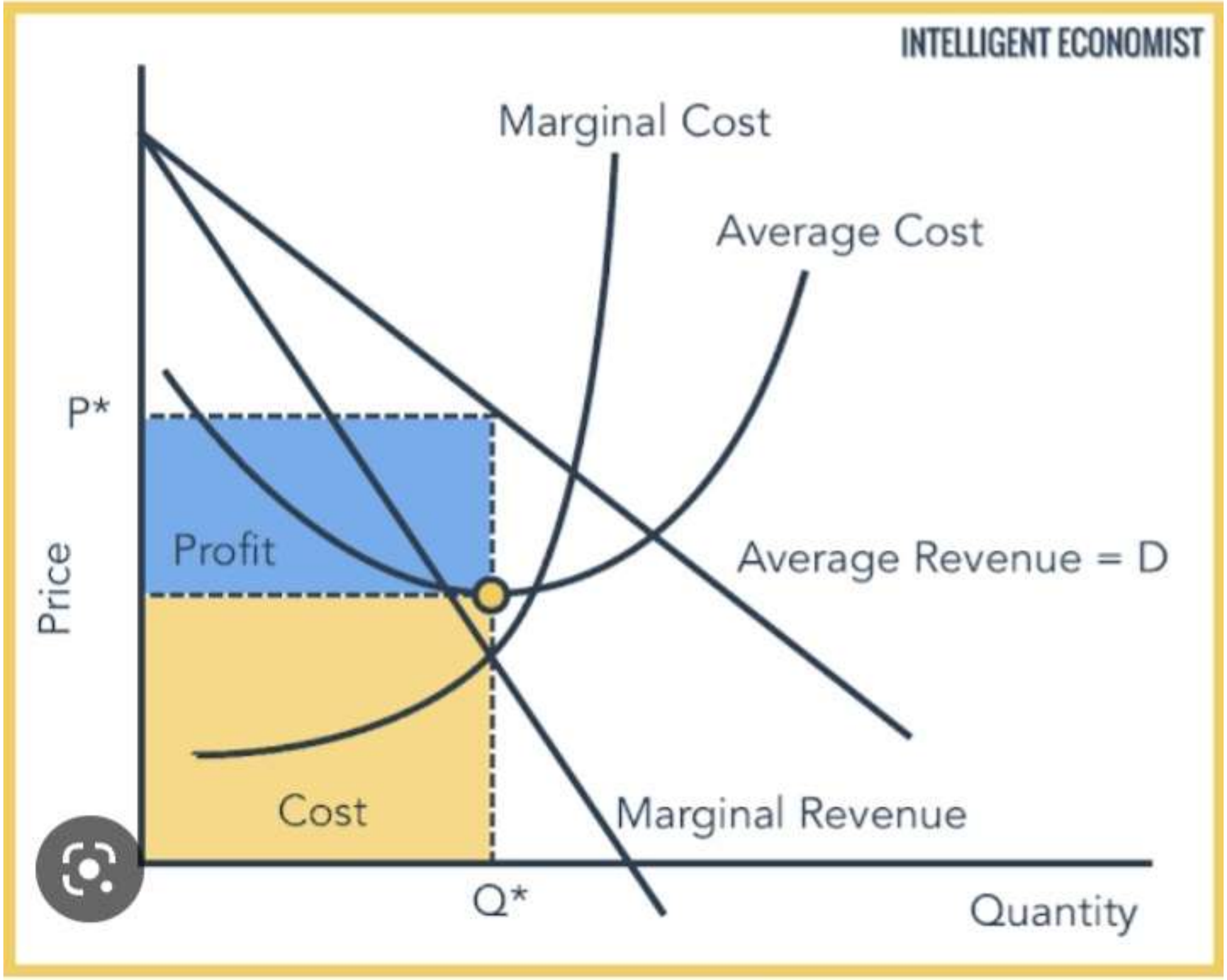
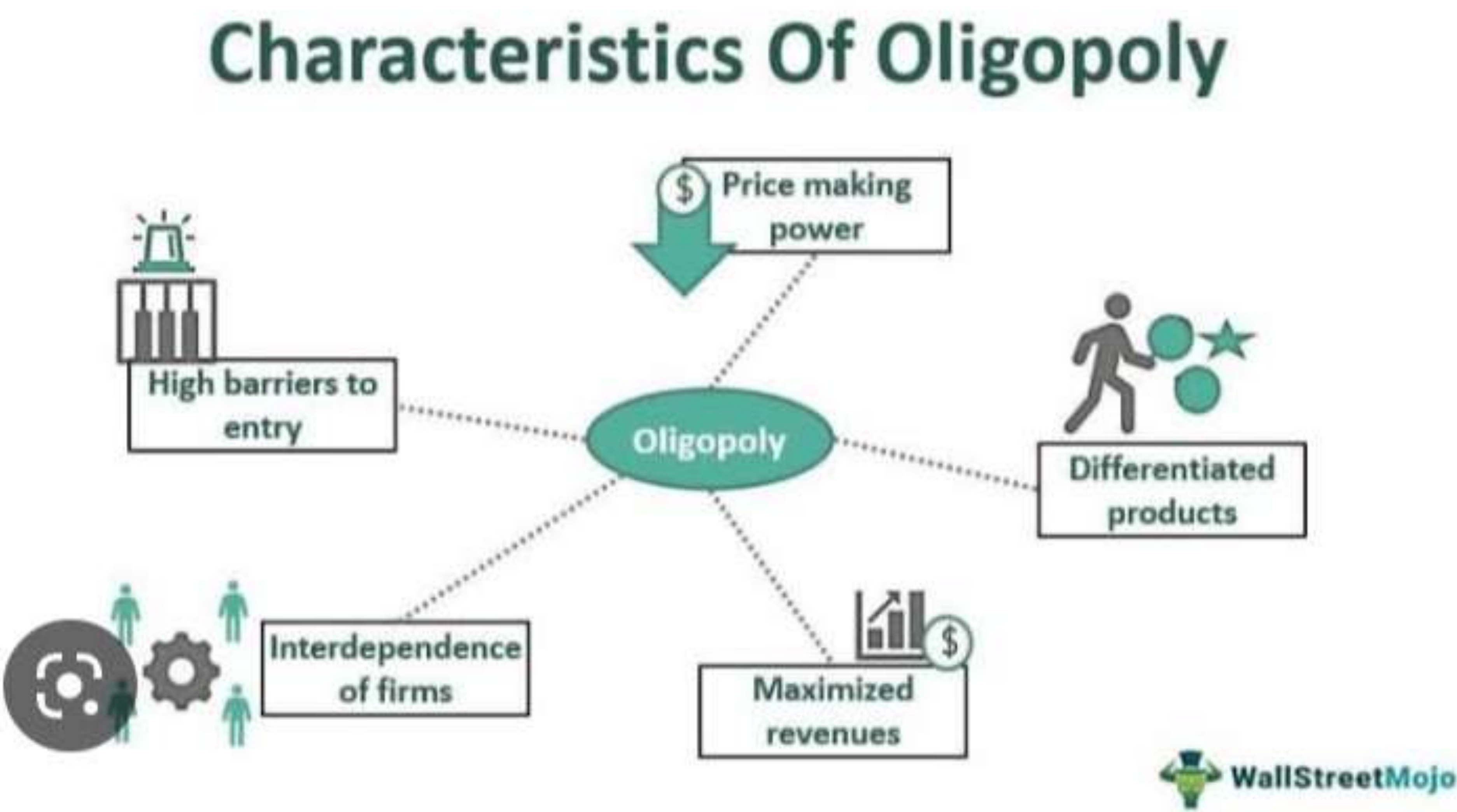


Market Structures

What is oligopoly?

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

Market Structures



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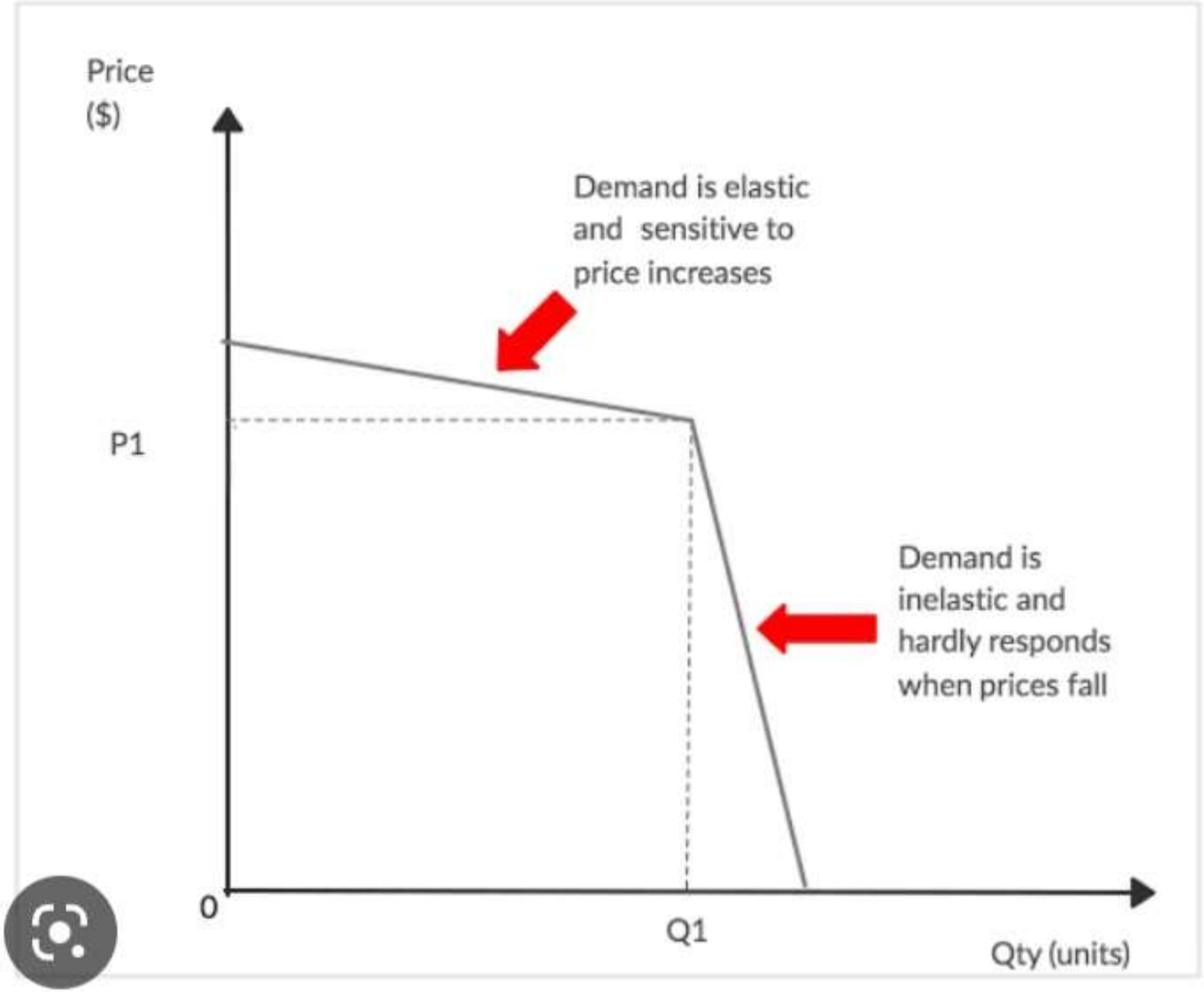

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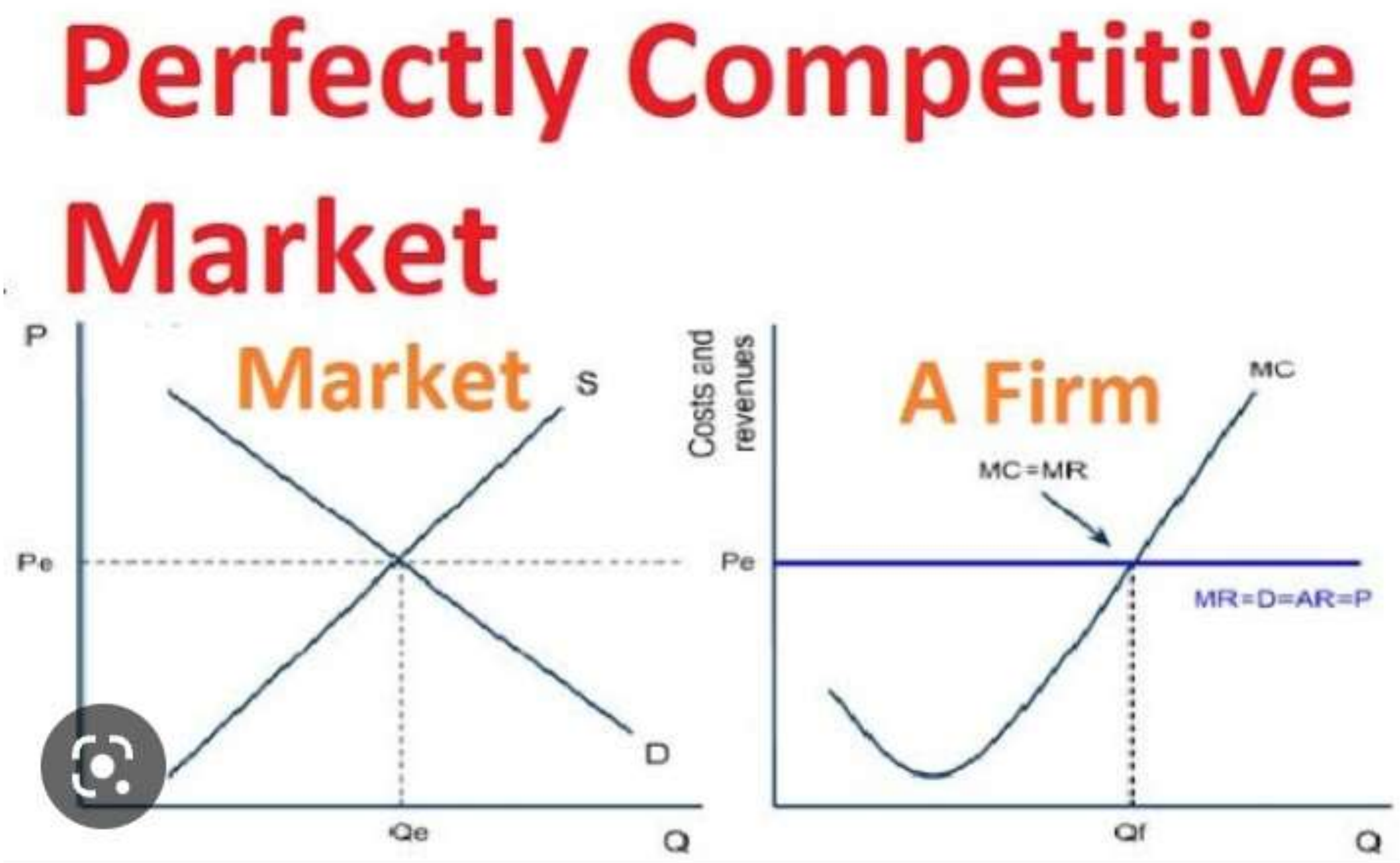

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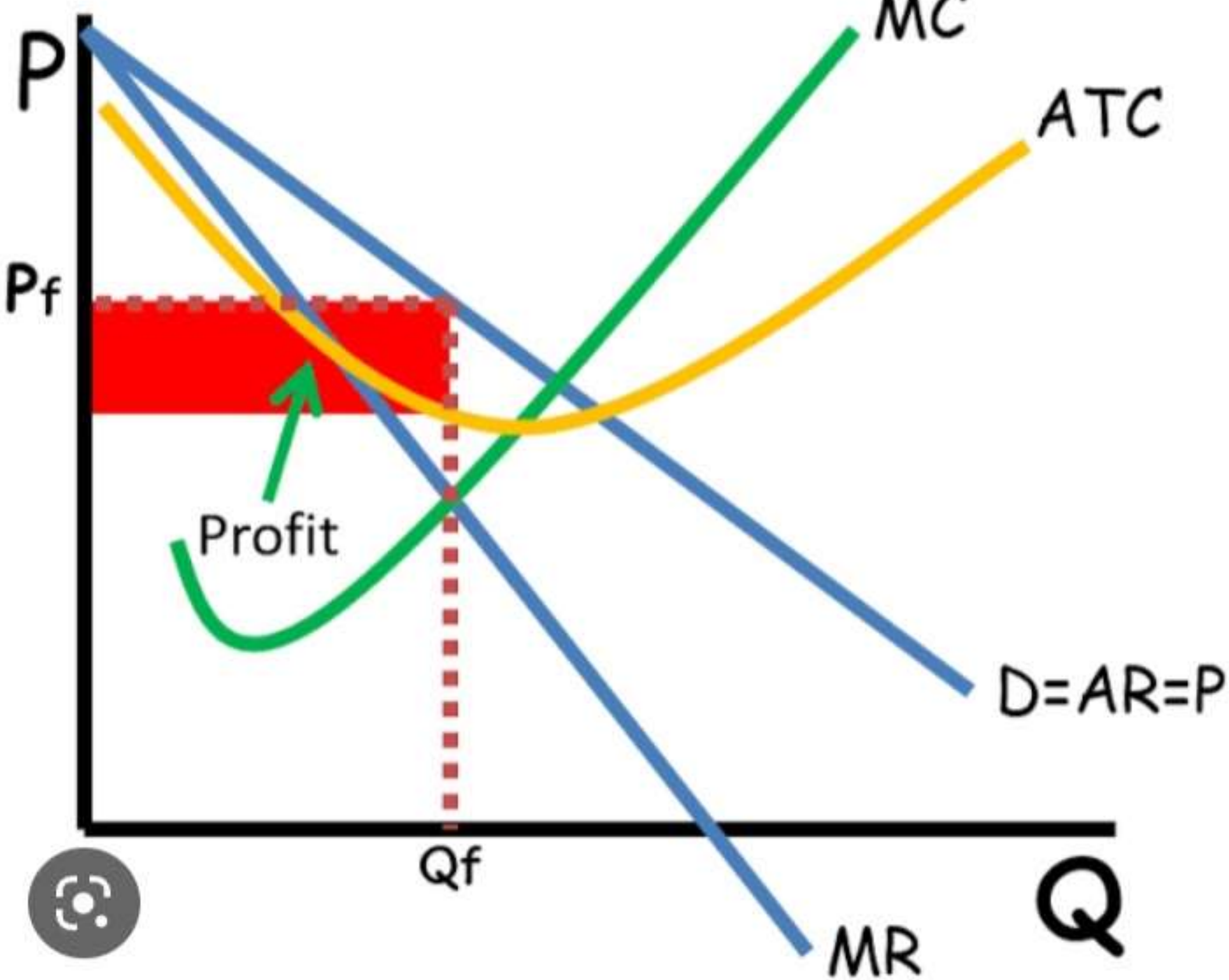

Market Structures