# Module 12 – Key Concepts (Ch. 14)

## Market Structure

### 1. Perfect Competition

- Many firms
- Identical products
- No market power
- Firms are **price takers**

### 2. Monopoly

- One firm
- Unique product
- Huge market power
- Can set price

### 3. Oligopoly

- Few large firms
- Products may be identical or differentiated
- Firms are interdependent
- Potential for collusion

### 4. Monopolistic Competition

- Many firms
- Differentiated products
- Some market power
- Example: restaurants or clothing stores

**Key idea:** Market power = ability to raise price **without losing all customers**.

- A firm with market power faces a **downward-sloping demand curve**.
- If it wants to sell more, it must **lower the price**.

## Marginal Revenue (MR)

### Why does MR < Price for firms with market power?

Because to sell an additional unit, the firm must:

1. Lower the price on the **extra** unit
2. Lower the price on **all previous units** as well
   (Assuming the firm cannot price discriminate)

## How Firms Choose Quantity & Price

**Step 1: set MR = MC**
**Step 2: get Q**
**Step 3: plug Q in D and get P**

## Regulation & Efficiency

In Chapter 3, perfectly competitive markets were shown to be **efficient**.
But firms with market power:

- Charge **higher prices**
- Produce **lower quantities**
- Create **deadweight loss**
  This is why imperfect competition is considered a **market failure**.

## Government Regulation

### Antitrust Laws

Government policies to prevent markets from becoming too uncompetitive. US Sherman Antitrust Act (1890)

- **Illegal monopolies**
- **Illegal cartels/collusion**
- **Merger review** (to prevent harmful mergers)
- **Blocking anti-competitive behavior** (price fixing, predatory pricing, etc.)

## Natural Monopolies

Some industries are **more efficient when a single firm produces everything**.
Examples: electricity, water, natural gas pipelines, telecom.

Usually we have decreasing marginal cost and very high entry cost, leading to high average cost, which is decreasing as Q increases.

It is usually better for one or few firms serving the whole market.

**Government response**

- **Allow the monopoly**
- **Regulate its price** to prevent exploitation
- Often a **public utility commission** sets prices