Market, Types of Markets, Features and Structure, Monopolies of a Market

In earlier days, exchange of goods and services basically take place at a common place between buyers and sellers. We call it as Market. Market is derived from a Latin word 'Mercatus' which means a place where business is transacted. Examples for the markets are Chowk Bazaar, Raithu Bazaar and Weekly markets etc. Market is also a system by which buyers and sellers interact to determine the price and quantity of a good or service. Now-a-days market is not restricted to a particular place. Sellers and buyers can do transactions without having any face to face interaction at common place. They can transact using internet, telephone and agents etc.

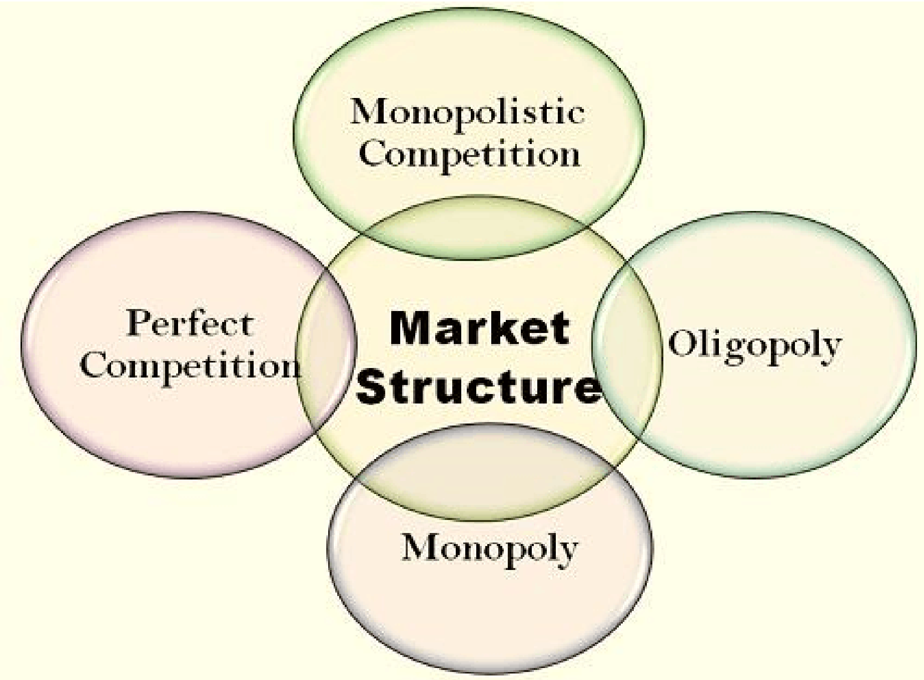
Definition of Market

"Market refers to the arrangement in a given area whereby buyers and sellers come in contact with each other directly or indirectly, to buy or sell goods."

Features of Market

- There must be a good or service which is being demanded and sold.
- There must be sellers and buyers of the good or service.
- There must be communication, either direct or indirect, between buyers and sellers.

Structure of the Market



Classification of the markets can be done based on

- Nature of the product-Consumer product markets or Industrial products markets.
- Number of sellers and buyers in the market-Perfect or Imperfect markets.
- Channels of distribution or saleable lots-Wholesale markets or Retail markets.

Markets Based on Number of Sellers

Monopoly Market

Monopoly derived from two Greek words 'moons' which means 'single' and 'polus' which means 'seller' i.e.. single seller. Monopoly is a market structure in which there is a single firm (called monopolist) producing all the output. Example: In India the government has monopoly in atomic energy, defense and railways etc.

Features of Monopoly

- A single firm- Only single seller and there are no competitors. He rules the whole market with his commodity.
- No close substitute (similar product having similar use) of the commodity.
- Price maker- As he is the only producer, he can set the price he wants until customers value that. But he cannot fix the quantity demanded.
- Main objective is to maximize the profits – He may earn abnormal profits under monopoly.
- Huge barriers to entry.
- Ultimate advantage for existing.
- No difference between firm and industry under monopoly.

Perfect Competitive Markets

Perfect competition is a market structure in which there are many firms producing similar kind of products. Example: Prices fixed by autowalas in particular area.

Features of perfect competitive markets:

- Large number of sellers and buyers for the similar product
- Homogeneous product – Product is a perfect substitute.
- No barriers to entry and exit – New firms will enter market if the industry is in profits and existing firms will leave the markets if the industry is in losses.
- A perfectly competitive firm is a Price taker – It must accept the equilibrium price which is set by industry. If the firm attempts to change even a tiny amount more than the market price it will be unable to make any sales.
- No advantage for existing. Under perfect completion firm can only expect normal profits.
- Sellers and buyers have perfect knowledge about the product.
- The government's role is to provide protection to sellers and do not interfere in business.
- There is no bar on factors of production such as labour etc. to move from one production unit to another to do work.
- In short run, the perfectly competitive firms will seek the quantity of output where profits are highest or if profits are not possible firms will try to minimize the losses to lowest.
- In long run, perfectly competitive firms will react to profits by increasing production. They will respond to losses by reducing production or exiting the market.
- Monopoly and Perfect competition are two extreme situations in the market. They are only possible in rare conditions. Most of the firms will fall between those two categories. This situation is called as imperfect competition.
- Duopoly – there are only two competitors having agreed upon things to act like monopoly.
- Oligopoly – there are few sellers with small differentiation in their products.
- Monopolistic – there are good number of competitors with more differentiation in their products.