



Chapter V: Types of Markets

Introduction

In economics, markets are not all organized in the same way. Some markets have many producers and strong competition, while others are dominated by only one or a few companies.

The structure of a market influences prices, competition, production, and consumer choices. For this reason, economists classify markets into different types according to the number of firms, the type of products, and the level of competition.

The main types of markets are perfect competition, monopoly, oligopoly, and monopolistic competition.

I. Perfect Competition

Definition: a perfectly competitive market is a market structure where many buyers and sellers trade identical products, and no single seller can influence the price.

Characteristics

- Large number of buyers and sellers
- Homogeneous (identical) products
- Free entry and exit in the market
- Perfect information for buyers and sellers

Example: agricultural markets such as wheat or corn are often used as examples because products are very similar and many producers exist.

Result: firms must accept the **market price** determined by supply and demand.

II. Monopoly

Definition: a monopoly is a market structure where a single firm controls the entire supply of a product or service.

Characteristics

- One producer
- No close substitutes for the product
- High barriers to entry
- The firm has strong control over prices

Examples: public utilities are often monopolies, such as electricity or water services in some countries.

Result: the monopolist can influence prices because there is no direct competition.

III. Oligopoly

Definition: an oligopoly is a market structure dominated by a small number of large firms.

Characteristics

- Few firms control the market
- Products may be identical or differentiated
- Firms are interdependent (each firm's decision affects the others)
- High barriers to entry

Examples: industries such as automobiles, airlines, or telecommunications often operate as oligopolies.

Result: firms often compete through advertising, innovation, or pricing strategies.

IV. Monopolistic Competition

Definition Monopolistic competition is a market where many firms sell similar but slightly differentiated products.

Characteristics

- Many producers
- Product differentiation (brand, quality, design)
- Relatively easy entry and exit
- Firms have some control over prices

Examples: restaurants, clothing brands, and cosmetic products.

Result: companies compete mainly through branding, marketing, and product differentiation.

Comparison of Market Types

Market Type	Number of Firms	Product Type	Price Control
Perfect Competition	Many	Identical	None
Monopoly	One	Unique	High
Oligopoly	Few	Similar or different	Moderate
Monopolistic Competition	Many	Differentiated	Some

Conclusion

Market structures determine how firms compete and how prices are set. In highly competitive markets, firms have little control over prices, while in monopolies, one firm dominates the market.

Understanding market types helps economists analyse competition, consumer choice, and the behaviour of firms in different industries.

Let's Practice

Activity 1: matching Exercise

Match the market type with its description.

1. Perfect Competition
 2. Monopoly
 3. Oligopoly
 4. Monopolistic Competition
- a. Many firms selling differentiated products
 - b. One firm controlling the market
 - c. Many firms selling identical products
 - d. Few firms dominating the market

Activity 2: identify the Market Type

Read the situations and identify the type of market.

1. Only one company provides electricity in a region.
2. Many farmers sell identical wheat in a market.
3. A few large companies dominate the smartphone industry.
4. Many restaurants compete by offering different menus and styles.

Answer Key 01:

- 1 → c
- 2 → b
- 3 → d
- 4 → a

Answer Key 02:

1. Monopoly
2. Perfect competition
3. Oligopoly
4. Monopolistic competition