**Market Structure Matters**

Is competition the same for all businesses? Actually, it’s not. The amount of competition that a company experiences depends a lot on how many businesses sell similar products. If a lot of businesses sell the same thing, then there is going to be a lot of competition. But, if only one business sells a particular product, then it won’t have any competition at all.

We use the term **market structure** to describe the type of market, or environment, in which businesses operate. There are four main types of market structures: perfect competition, monopolistic competition, oligopoly, and monopoly. The market structure for an industry depends primarily on how many sellers exist in that market. Let’s take a closer look at each type of market structure.

**Perfect competition.** For **perfect competition** (also known as pure competition) to exist, many businesses must sell identical products to many buyers. Because many businesses all sell the same product, there is a plentiful supply of that good or service. All businesses compete equally and charge about the same price, which means that no seller has an “edge” on the others. This sounds pretty good in theory, but does perfect competition exist in the real world? Not really. It’s more of a benchmark to compare real market structures against. The closest that we come to perfect competition in the real world is in farm commodities, such as wheat and corn. These producers sell the same product at pretty much the same price using the same technology. This results in a market structure closely resembling perfect competition.

Learn about how fishermen can provide an example of perfect competition with this video, “Perfect Competition,” from Investopedia: <https://www.investopedia.com/video/play/perfect-competition-0/>.

**Monopolistic competition.** This is the type of market structure you’re most likely to find in a private enterprise economy. There are a lot of businesses selling similar products that have only a few differences. Think of shampoo, cosmetics, and running shoes. All of the shampoo being sold today is relatively similar, as are the cosmetics and running shoes. Sellers lower their prices to increase sales and try to differentiate their products from their competitors’ to attract business. Producers use brands, packaging, advertising, special features, and service to make their goods and services stand out. Such price and nonprice competition goes a long way toward helping businesses succeed in an environment of **monopolistic competition**.

**Oligopoly.** In an **oligopoly**, there are only a few businesses that sell all of the products. As a result, these businesses are relatively large and have a lot of control over product prices and the market. It is difficult for new businesses to enter the market and compete in an oligopoly, but an oligopoly does have its advantages. When only a few large businesses compete, each business has time to devote to innovation and the reduction of production costs. What U.S. industries are oligopolies? The automobile industry, the pharmaceutical industry, and the oil industry. Each contains a limited number of players who have a lot of control over what is produced and how much the consumer must pay for their products.

Learn more about how oligopolies work by watching this video, “Oligopoly,” from Investopedia: <https://www.investopedia.com/video/play/oligopoly/>.

**Monopoly.** A **monopoly** exists when the market is controlled by one business, and there are no substitute products readily available. In this type of market structure, competition does not exist.

Monopolies are usually not allowed to exist in a **private enterprise system**, because they can cause many problems. Monopolies have a tendency to raise prices, produce less, and prevent new businesses from entering the market. However, in some cases, monopolies do legally exist. When the government feels that one large company can serve customers more efficiently than several small ones, it may allow a monopoly to exist. These monopolies, known as **regulated monopolies**, are necessary to keep prices and costs down. They operate under close government supervision and must obtain approval to raise rates.

There aren’t many regulated monopolies in the United States today. The few that exist include electricity distribution, natural gas distribution, and garbage collection. Rather than allowing multiple electric companies to string or bury their lines all over a city so that all can compete for the residents’ business, many local governments have determined that it is in the public good to allow one company to handle electricity distribution for an entire area. In such instances, government has determined that it is to our benefit as consumers and city residents to allow a monopoly to exist.

**The Role of Government**

In a private enterprise system, governments regulate businesses to encourage ethical and legal competition. Several pieces of federal legislation have been passed over the years to promote competition, which can help keep prices down, quality good, and production efficient. These acts include:

* **Sherman Antitrust Act (1890)**

Prevents monopolies from forming and hinders **price fixing**

* **Clayton Act (1914)**

Prevents specific business actions that might restrict competition, such as **tying agreements** and **exclusive agreements**

* **Federal Trade Commission Act (1914)**

Created a regulatory agency, the Federal Trade Commission (FTC), which monitors business activities in order to prevent unfair competition

* **Robinson-Patman Act (1936)**

Prohibits **price discrimination** so that all businesses purchasing similar amounts and types of products will be charged the same price

* **Celler-Kefauver Antimerger Act (1950)**

Protects competitors from takeovers if the acquisition would hinder competition

To read more about how the FTC protects consumers and encourages competition, click here: <https://www.ftc.gov/about-ftc>.

And to see an example of the FTC in action, look at this news video about how the FTC filed a lawsuit against Facebook, accusing it of violating antitrust laws: <https://www.youtube.com/watch?v=PJs4h6lpEYs>.

**Summary**

A market structure is the type of market, or environment, in which businesses operate, and it is primarily based on the number of sellers in the market. There are four main types of market structures: perfect competition, monopolistic competition, oligopoly, and monopoly. The U.S. government has passed several pieces of legislation to promote competition.