

GRADE 11 STUDY GUIDE | 2024

Market Structures

Economics

1. Perfect Competition

- Many buyers and sellers; all selling identical products
- No single firm has market power; each firm is a PRICE TAKER
- Free entry and exit; perfect information
- Long-run: economic profit = 0 (firms earn normal profit only)
- Examples (closest): commodity markets (wheat, corn), forex market

2. Monopoly

- ONE seller; unique product with no close substitutes
- PRICE MAKER: has significant control over price
- Barriers to entry: legal (patents, licences), natural (high fixed costs), exclusive access to resources
- Profit maximisation: $MR = MC$ (allocatively inefficient: $P > MC$)
- South African examples: historically Eskom (electricity), PRASA (rail)
- Regulated by Competition Commission to prevent abuse

3. Oligopoly

- A FEW large firms dominate the market
- Interdependence: each firm must consider rivals' reactions
- Collusion (price-fixing): illegal in SA under Competition Act
- Non-price competition: advertising, product differentiation, customer service
- South African examples: banking sector (big 4), supermarket chains, cell phone networks

4. Monopolistic Competition

- MANY sellers but each sells a DIFFERENTIATED product
- Some price-making power due to product differentiation
- Easy entry/exit; competitive advertising
- Short-run: can earn profit; long-run: normal profit due to entry of new firms
- Examples: restaurants, clothing brands, hair salons

5. Comparison Table

Summary of key differences:

Number of firms: Perfect=Many, Monopolistic=Many, Oligopoly=Few, Monopoly=One

- Product: Perfect=Identical, Monopolistic=Differentiated, Oligopoly=Same/Diff, Monopoly=Unique
- Price control: Perfect=None, Monopolistic=Some, Oligopoly=Some-Much, Monopoly=Significant
- Entry barriers: Perfect=None, Monopolistic=Low, Oligopoly=High, Monopoly=Very High