Chains of Reasoning

Market Structures

1. No. of firms in market: ↑no -> ↑competitiveness
   Ev: also included extent of competition from abroad
2. Degree of product differentiation: ↑differentiation eg. price, branding, quality -> products more unique -> ↓competitiveness -> inelastic PED
3. Ease of entry: ↑barriers -> prevent new firms to enter market profitably
   a. Ec of sc
   b. ↑Brand loyalty -> hard for new firms to gain consumer loyalty -> inelastic PED
   c. Control of important tech
   d. Strong reputation
   e. Backwards vertical integration -> acquire supplier -> control supply -> firms can control price to pay supplier -> hard for new firms to compete on price
   f. Structural: differences in production costs
   g. Strategic: undercutting another firm's price
   h. Statutory: patents protect franchise

Objectives of firms

Will influence a firms behaviour

1. Profit maximisation
   a. Cheap source of finance -> invest {use profits instead of loan} as loans might be expensive/have high IR
   b. SR profit max -> give shareholders high dividend
2. Survival (ST view): particularly new firms/during financial crisis -> aim to sell as much as possible -> keep market position -> ST loss
3. Growth: expand product range/merging or taking over existing firms -> ↑size of firm -> ec of sc -> risk-bearing/tech… -> ↓AC in LR -> ↑profit -> able to participate in R+D -> ↑competitiveness ↑efficiency in LR
4. ↑Market share -> ↑chance of survival
5. Society/environmental/ethical/managerial form personal gains/worker welfare

Competitiveness

Characteristics

1. Many buyers/sellers
2. Sellers are price takers
3. Free entry to/fro market
4. Perfect knowledge
5. Homogeneous goods
6. Firms SR profit max

Ad-/disadvantages

1. ↓Market share for each firm -> ↓profits than market with few large firms -> ↓market power
2. SR: more profitable; LR: low barriers of entry -> new firms enter market when firms make profit -> ↑supply -> ↓AP -> existing firm's profit competed away

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