Market structure

A market is a set of buyers and sellers, commonly referred to as agents, who through their interaction, both real and potential, determine the price of a *good*, or a set of goods. The concept of a market structure is therefore understood as those characteristics of a market that influence the behaviour and results of the firms working in that market.

The main aspects that determine market structures are: the number of agents in the market, both sellers and buyers; their relative negotiation strength, in terms of ability to set prices; the degree of concentration among them; the degree of differentiation and uniqueness of products; and the ease, or not, of *entering* and *exiting the market*. The interaction and differences between these aspects allow for the existence of several market structures, from which we can highlight the following:

-*Perfect competition*: the efficient market where goods are produced using the most efficient techniques and the least amount of factors. This market is considered to be unrealistic but it is nevertheless of special interest for hypothetical and theoretical reasons.

-*Monopoly*: it represents the opposite of perfect competition. This market is composed of a sole seller who will therefore have full power to set prices.

-*Oligopoly*: in this case, products are offered by a series of firms. However, the number of sellers is not large enough to guarantee perfect competition prices. These markets are usually studied by analysing *duopolies*, since these are easier to model and the main conclusions can be extrapolated to oligopolies.

-*Monopolistic competition*: this market is formed by a high number of firms which produce a similar good that can be seen as unique due to differentiation that will allow prices to be held up higher than marginal costs. In other words, each producer will be considered as a monopoly thanks to differentiation, but the whole market s considered as competitive because the degree of differentiation is not enough to undermine the possibility of substitution effects.

-Contestable Markets – An industry with freedom of entry and exit, low sunk costs. The theory of contestability suggests the number of firms is not so important, but the threat of competition.

Structure, conduct, performance paradigm

Structure, Conduct and Performance paradigm (SCP) is used as an analytical framework, to make relations amongst *market structure*, market conduct and market performance.

Elements of the Paradigm