

- (d) Organizations which are members of the same industry may choose different vertical and horizontal boundaries.

7. **Competitive markets.**

(a) Markets.

- i. a market consists of buyers and sellers that communicate with one another for voluntary exchange. It is not limited by physical structure.
- ii. in markets for consumer products, the buyers are households and sellers are businesses.
- iii. in markets for industrial products, both buyers and sellers are businesses.
- iv. in markets for human resources, buyers are businesses and sellers are households.
- v. Note: an industry is made up of businesses engaged in the production or delivery of the same or similar items.

(b) Competitive markets.

- i. markets with many buyers and many sellers, where buyers provide the demand and sellers provide the supply, e.g., the olive market.
- ii. the demand-supply model - basic starting point of managerial economics, the model describes the systematic effect of changes in prices and other economic variables on buyers and sellers, and the interaction of these choices.

(c) Non-competitive markets – a market in which market power exists.

8. **Market power.**

- (a) Market power - the ability of a buyer or seller to influence market conditions. A seller with market power will have the freedom to choose suppliers, set prices and influence demand.
- (b) Businesses with market power, whether buyers or sellers, still need to understand and manage their costs.
- (c) In addition to managing costs, sellers with market power need to manage their demand through price, advertising, and policy toward competitors.

9. **Imperfect Market.**

- (a) Imperfect market - where one party directly conveys a benefit or cost to others, or where one party has better information than others.
- (b) The challenge is to resolve the imperfection and be cost-effective.
- (c) Imperfections can also arise within an organization, and hence, another issue in managerial economics is how to structure incentives and organizations.

10. **Local vis a vis global markets.**

- (a) Local markets – owing to relatively high costs of communication and trade, some markets are local, e.g., housing, groceries. The price in one local market is independent of prices in other local markets.