Detailed Comparison of Market Structures
FOR BEE QUESTIONS 10(pg 23.3.23) & 12(pg 23.3.30)

Characteristics	Oligopoly	Monopolistic Competition
Equity ***Equity →"fairness" in terms of income distribution*** ***Income is derived from ownership of businesses/firms in the form of profits or dividends.***	Oligopolies may earn supernormal profits in the long run. Supernormal profits represent excessive profits. Thus, the presence of Oligopolies **exacerbates income inequality** in the economy as the supernormal profits are concentrated in the hands of the owners/shareholders of monopoly firms e.g. oil giants. And this is at the expense of consumers paying high prices for limited quantities. ***HOWEVER**, the government can intervene by having corporate/profit taxes on such firms and redistribute the income to the households in the forms of subsidized goods and services such as healthcare and education and generous welfare handouts like unemployment benefits and good coupons for the poor.* ***Note: The corporate taxes should not be so high that discourages investment.*** ***Note:** While governments can tax the firms to redistribute some of their profits to the lower-income groups, it is unlikely that governments would impose a heavy tax as this reduces the incentive for the oligopolistic firms to engage in research and development to improve their goods or services. Thus inequity is likely to worsen or persist even if the government intervenes.*	Competitive markets tend to spread opportunities and wealth widely as there is free entry in which firms can enter and compete for the supernormal profits easily. Profits are spread amongst many small firms till everyone earns only normal profits in the long-run. ***HOWEVER**, monopolistic competition does not rectify pre-existing income inequality.*
Innovation (Dynamic efficiency) ***To do R&D, firm must have both incentive and ability to do so***	**Have both incentive and ability to innovate** **Have Incentive:** <u>Price competition is a bad strategy in a competitive oligopoly</u>: In competitive oligopolies, there is price rigidity and price war will probably lead to a no win situation for every firm. Avoidance of price competition provides the incentive for firms in an oligopolistic market to turn to non-price competition. <u>Barriers to Entry</u> Innovation is a form of erecting entry barriers. For example, if successful product differentiation can attract new consumers and increase market share/profits thus making it difficult for new firms to enter. <u>Product proliferation</u> Product proliferation is practiced by oligopolies. It aims to deter new entrants by saturating/flooding the market with lots of	**Have incentive but no ability** **Have incentive:** The goods they sell are differentiated and there is imperfect information so the improvement they made would not be easily made known to other producers. *However, there is no big gain from major innovation because monopolistically competitive firms cannot retain supernormal profits in the long run due to free entry and exit. The money spent on innovation does not yield a return in the form of supernormal profits. Firms will end up making only normal profits (i.e. minimum required to remain in the industry).* *The product sold is only SLIGHTLY DIFFERENTIATED. (i.e. very close substitutes). There are no substantial sustainable benefit from major innovation.* **No $$:** Despite their efforts, they only earn normal profits in the long-run so the ability to innovate is limited by the available funds.

Characteristics	Oligopoly	Monopolistic Competition
	different brands, models which are produced by the same firm. New rivals find it difficult to enter unless they can match the wide range of models/brands produced by the incumbent firm e.g. So many types of tea produced by Lipton tea or many types of coffee by Nescafe or instant noodles by Maggi/Nissin etc; Snacks crackers – the mind-boggling variety produced by Pepsico. Also, they are able to retain the supernormal profits in the long-run. These give the oligopolies the incentive to innovate. **Have Ability:** Oligopolies like monopolists are able to retain supernormal profits in the long-run and thus have the means to finance expensive R&D work. ***HOWEVER**, pace of innovation can be slow in collusive oligopolies especially when there is a lack of competition from potential entrants.* *The aim of collusive oligopolies is to maintain their respective market shares Thus, there is no real incentive to engage in competitive innovation.*	As a result, the type of innovation is mainly simple/small scale/minor/low-cost product differentiation. But, not expensive groundbreaking innovation that involve huge outlay Examples: In the F&B industry – use more fanciful cutleries; better décor; better furniture; better background music; better looking uniforms for service staff.
Choices (variety and firms) ***Consumers choice = consumers sovereignty/Consumer is King.*** ***3 contexts:*** • ***Choice in terms of products*** • ***Choice in terms of sellers*** • ***Choice in terms of output***	**Choice of Products and sellers:** Consumers have a variety of products to choose from and also a pool of producers to buy from. Given that most oligopolistic firms engage in non-price competition, there is a high chance that there are improvements in innovation and consumer choice. *However, if the non-price competition is centered on branding and persuasive advertising, they only give an illusion to consumers they have a wider choice and in actual fact the products may be similar. So consumer choice may not improve and may even worsen consumer choice if consumers are swayed into buying goods and services that add less marginal benefit to them than what the consumers perceive. (In other words, Perceived private marginal benefit > Actual private marginal benefit). Hence it is questionable if oligopolistic firms would improve innovation and consumer choice.* **Choice of output:** Output is below the socially efficient level (ie P>MC). Consumers do not get the desired quantities.	**Choice of Products and sellers:** Consumers have a variety of goods and services and a large number of firms to choose from. In terms of choices of product and sellers, this model offers the widest choice. **Choice of output:** Output is below the socially efficient level (ie P>MC). Consumers do not get the desired quantities. However, the trade-off is the problem of excess capacity or idle capacity. In the long run when the industry is in equilibrium, all firms will operate below their full capacity (refer to diagram P. 23.3.33) As the product is supplied by many small firms, each selling a slightly differentiated product, the firms suffer from excess capacity ie every firm will be operating below their full capacity. There will be periods of lull or unused capacity is prevalent. Hence, there is lots of wastage. For example, during off –peak hours, most shops in shopping malls are empty or very few customers, and the staff "idling". Business is also slow during off-peak hours for hawker stalls.