

# Firms and Markets

# Introduction

In markets with few firms...

- Firms are not price takers
- Efficiency not insured
- Market failure
- Scope for government intervention!

# The Firm

- Basic unit of organization
- Variation in size and scope
- Types of firms:
  - Corporations
  - Partnerships
  - Other
- Objectives
- Economic and accounting profits
- Control in the firm
- Firm as an organization

# Markets

1. Monopoly
2. Dominant firm
3. Oligopoly
4. Monopolistic competition
5. Perfect competition

# Perfect Competition

- No buyer or seller has control over prices
- Free entry and exit in the long run
- Buyers and sellers have access to all relevant information
  
- Normal profits
- No deadweight loss

# Monopoly

- Single seller
- Faces market demand curve
- Above-normal profits
- Deadweight loss
  
- Other sources of inefficiency
- Is monopoly evil?

# Dominant Firm

- Firm with large market share
- Constrained by small rivals
- Examples
  
- Predation
- Market definition

# Monopolistic Competition

- Similar to perfect competition
- Entry and exit
- Product differentiation
- Normal profits



# Oligopoly

- Few sellers
- Downward sloping residual demand
- Firms are strategic
  
- Deadweight loss
- Collusion