

Guided Reading Activity

Market Structures

Lesson 1 *Competition and Market Structures*

Review Questions

Directions: Read each main idea. Use your textbook to supply the details that support or explain each main idea.

A. Pure Competition

Main Idea: Pure competition is a theoretical construct based on factors—such as very large numbers, identical products, and freedom of entry and exit—that do not exist in the real world. Perfect competition, too, exists in theory only, as it posits that all aspects of the market are “perfect” in all things—a state of affairs that does not occur.

- 1. Detail:** Pure competition demands that there be a very _____ number of buyers and sellers, and that all products be _____.
- 2. Detail:** Perfect competition stipulates that all buyers and sellers have perfect _____ of all the _____ in the market.
- 3. Detail:** In pure competition, market supply and demand set the _____ price of a product, and each firm is too small by itself to _____ the market price.
- 4. Detail:** In pure competition, a business decides how much of a product to make by determining the point at which the marginal _____ of production is equal to the marginal _____ from sales.

B. Monopolistic Competition

Main Idea: In monopolistic competition, products are very similar and sellers emphasize some uniqueness in their product to convince consumers to buy them. Most brand name products fit into this category.

- 1. Detail:** Because products in monopolistic competition are similar, monopolistic competition is characterized by product _____, real or perceived differences between similar, competing products. Consumers are often willing to pay _____ for products that stand out or are perceived as superior.

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2. **Detail:** Businesses often use _____ competition, such as promotions and aggressive _____ on TV or online, to lure consumers into buying their product.

C. Oligopoly

Main Idea: In an oligopolistic market structure, a few giant businesses dominate the market. In this form of imperfect competition, these large firms have a huge influence on the price of goods.

1. **Detail:** Oligopolies often _____ each other's actions, such as by altering _____ to match those of other giant firms producing the same products.
2. **Detail:** Oligopolists _____ by using nonprice measures, such as changing the _____ of a model of an automobile.
3. **Detail:** Sometimes oligopolists engage in _____, an agreement with others in the same business to charge the same price; this is a form of _____, which is illegal.
4. **Detail:** Nonprice _____ is expensive, so _____ products are often more expensive than monopolistic products.

D. Monopoly

Main Idea: A monopoly is a market structure in which a product type is made and sold by only one producer. There are four types of monopolies: natural, geographic, technological, and government.

1. **Detail:** Electric utilities are an example of a _____ monopoly because production costs of electricity are _____ when it is produced and distributed by single company.
2. **Detail:** A _____ monopoly occurs when only _____ business in a region is selling a product or the product cannot be sold in other ways.

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- 3. **Detail:** A technological monopoly may arise when one company has a _____ on a particular production technique or a _____ on written material that ensures it has an exclusive right to market a specific product.

- 4. **Detail:** A _____ monopoly involves products or services, such as water provision and treatment, that the _____ sector cannot adequately supply.

- 5. **Detail:** No matter what the market structure, businesses strive to achieve maximum _____ by adjusting production to price.

Summary and Reflection

Directions: Summarize the main ideas of the lesson by answering the questions below.

Today, some politicians and economists are calling for a significantly reduced role of government in the economy. They envision private businesses taking over some or most of the services provided by the government to its citizens. These individuals believe that the profit motive will make provision of these services by private, for-profit businesses far more efficient and thus less costly. What do you think? Which, if any, government services do you think would be provided more cheaply and efficiently by a for-profit company? Explain your answer using examples.
