

Assignment 3: Market Types

ECON 22060

For your third assignment, you are asked to pick a product and describe its market structure. You may remember from class that there is a spectrum of markets, with perfect competition on one side and monopoly on the other. In class I also described characteristics which cause a market to fall into one of these categories. If you think it might fall in the middle, such as monopolistic competition or oligopoly, you may have to look up some things about that market. Try searching market structures as a starting point.

For instance, I might choose a product or company, let's say, Time Warner Cable TV. I then want to argue why this company faces a certain type of market, appealing to the characteristics from class and what I know about Perf. Comp. firms and Monopolies. I might argue that cable companies face

- High barriers to entry – initially they have to lay all the cable, very expensive (your textbook lists several barriers to entry in chapter 10)

- One Seller - obviously

- Full info but High Shopping costs – A satellite technician has to come check your home out for service

- Different Products – Well, not really, cable companies provide a pretty similar product.

I also might argue that Comcast's profits do not seem to be declining with time and that they seem to be a price maker.

Looking at all these characteristics, I'd conclude that even though Comcast doesn't provide a very unique product, the high fixed costs (barriers to entry) and the shopping costs involved still lead to this market functioning as a monopoly, which is verified by what we know about profits and prices for that type of firm. This is just a rough outline of what I might say, you guys should type it out in sentences and paragraphs and explain why you think you are right about your arguments.

You may argue that your firm faces any of the four market types, or represents a mix. The key here is to think about what makes a market act in a certain way, what the results of a market type are, and how that translates to the real world.

This assignment should take you no more than two pages, double spaced (unless you get excited about it), though you could probably do it in one page. Have fun! Think about how firms position themselves to be as close to a monopoly as they can, since that is best for them. What can they do to reduce the perception of having competitors or close substitutes?

Rubric for Peer Evaluation:

10 points: The submitter clearly and correctly explains what type of market a company or product is in. The submitter explains the product and how it relates to each of the four characteristics of the market types presented in class (number of sellers, uniqueness of product, availability of info/transaction costs, and barriers to entry). The submitter does not use an example from class. The writing is clear and they use full sentences to answer the assignment.

9 points: The submitter clearly and mostly correctly explains what type of market a company or product is in. The submitter explains the product and how it relates to at least 3 of the 4 characteristics of the market types presented in class (number of sellers, uniqueness of product, availability of info/transaction costs, and barriers to entry). The submitter does not use an example from class. The writing is understandable and they use full sentences to answer the assignment.

8 points: The submitter mostly correctly explains what type of market a company or product is in. The submitter explains the product and how it relates to at least 2 of the 4 characteristics of the market types presented in class (number of sellers, uniqueness of product, availability of info/transaction costs, and barriers to entry). The submitter does not use an example from class. The writing is understandable and they use full sentences to answer the assignment.

7 points: The submitter mostly correctly explains what type of market a company or product is in. The submitter explains the product and how it relates to at least 1 of the 4 characteristics of the market types presented in class (number of sellers, uniqueness of product, availability of info/transaction costs, and barriers to entry). The submitter does not use an example from class. The writing is mostly understandable and they use full sentences to answer the assignment.

6 points: The submitter incorrectly explains what type of market a company or product is in. Despite this, they try to relate the product to some or all of the characteristics of the market types presented in class (number of sellers, uniqueness of product, availability of info/transaction costs, and barriers to entry). The submitter does not use an example from class. The writing is mostly understandable and they use full sentences to answer the assignment.

5 points: The submitter made an attempt to answer the assignment, but was entirely incorrect or did not relate their product to any of the 4 characteristics presented in class. Alternatively, the submitter was entirely correct but used an example from class.

0-4: The submitter did not make an honest attempt to answer the assignment. A 0 will represent no effort while a 4 represents effort but completely off topic.

10 pt. Model Response:

My example of a good is Viagra. Viagra is made by Pfizer who holds a US patent until 2020 as the exclusive maker of the drug. This patent makes Pfizer the only seller, which is a characteristic of a monopoly. This also creates large barriers to entry, as Pfizer can sue if another firm enters the market or they can drop their price and try to undercut the new entrant until they no longer want to make a competing drug.

While there are a few substitutes to Viagra, like buying it from Canada online or using another erectile dysfunction drug like Cialis, it remains a fairly unique product, which also seems to make it a monopoly. Finally, Pfizer was required to explain how they made the drug in their patent, so there is full information in this market. This doesn't necessarily line up with what we would expect from a market, but the company chose to disclose this and get a patent protecting them for 20 years rather than risk another firm reverse engineering it in a shorter time if they tried to just keep it as a secret formula. Taking all these things into consideration, and looking at the long term, sustained profit that Viagra has created for Pfizer, I would conclude that this a monopoly is the best fit to describe this product.

Chart to help you analyze the market:

coggle

