2.5 Competition

Key Words

Competition	Where different firms are trying to sell a similar product to the consumer
Monopoly	A sole producer of a good or service
Oligopoly	Where a small number of firms control the large majority of the market share
Competitive Markets	Where a large number of firms compete in the market
Non price competition	Where businesses compete on criteria other than price eg quality, location, after sales service, advertising
Price competition	Where firms lower their prices to gain customers and therefore market share.

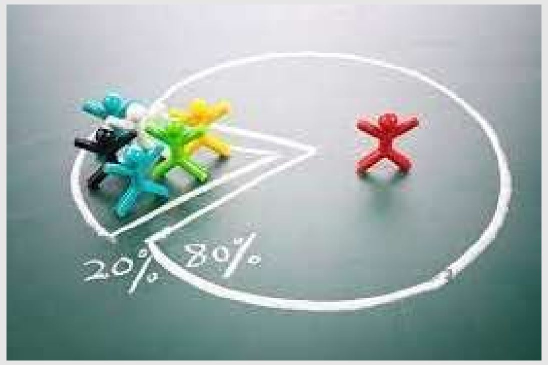
Why do producers compete'?

Producers compete to:

- Enter a market
- Survive in a market
- Make a profit

Competition between producers takes place because they are trying to achieve objectives such as profit maximisation or increased market share. In addition, competition between firms leads to increased efficiency as they will push to lower their costs of production. Reduced costs will enable firms to lower prices and help them to compete with other businesses.

Competition between firms may take the form of **price competition** or **non price competition.**



The impact of competition

Analyse impact of competition on producers

Competition forces producers to improve efficiency, productivity and therefore growth in the economy	New technology and or need to cut costs may mean lower demand for labour and therefore higher unemployment
Quality of goods tends to improve as competition encourages innovation	Firms that are slow to adapt to change may be driven out of business

Analyse impact of competition on consumers

Prices tend to fall	Prices may rise because…
Quality of goods tends to improve	Competition may lead to more advertising and therefore rising prices
Competition leads to greater choice for consumers	In order to reduce prices, businesses may cut costs which may cause harm to consumers

Different levels of competition

Monopoly, oligopoly and competitive markets

Difference	Monopoly	Oligopoly	Competitive market
Size	Usually very large	Can be very large but with smaller firms	Normally smaller
No. of firms	1	A few	Many
Control of prices	Able to set the price but not the quantity	Can influence price but restrained by competitors. Possible collusion	Price set by market forces of demand and supply
Level of price and output	A monopoly would charge a higher price and produce a smaller quantity	Price and quantity depend on strength of firms and collusion	Price and quantity depend on market forces. Price would be lower and quantity greater
Efficiency	Monopolies are seen as not being very efficient	Usually seen as not being efficient	Normally quite efficient

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