

What Are Market Structures?

Worksheet

The four main market structures are perfect competition (many small firms, no power), monopoly (one firm, total power), oligopoly (few large firms, shared power), and monopolistic competition (many differentiated firms, some power).

Questions

1. In perfect competition, firms are

- A) Price makers with significant power
- B) Price takers - they accept market price
- C) Able to charge whatever they want
- D) Incentivized to merge

2. Which is a barrier to entry in a monopoly?

- A) High startup costs
- B) Government license or patent
- C) Control of a key resource
- D) All of the above

3. Two airlines control 90% of a market. This is

- A) Perfect competition
- B) Oligopoly (duopoly)
- C) Monopolistic competition
- D) An untypical market

4. Monopolistic competition is most like

- A) Perfect competition
- B) Pure monopoly
- C) An industry with many differentiated brands
- D) A government-run service

5. A wheat farmer in a competitive market grows wheat - can they charge \$10/kg when the market price is \$4/kg?

6. Microsoft dominates operating systems and has pricing power. Is this monopoly or oligopoly?

7. Two companies own 80% of a market. Lots of smaller rivals exist. What structure is this?

8. Define: What defines perfect competition?

9. Define: What is a monopoly?

10. Define: Define oligopoly.

Answer Key

1. B) Price takers - they accept market price - Perfect competition has so many firms and identical products that each firm is a price taker.
2. D) All of the above - Monopolies persist because barriers prevent competitors from entering - any of these can create one.
3. B) Oligopoly (duopoly) - Two firms with dominant market share = oligopoly (specifically, a duopoly).
4. C) An industry with many differentiated brands - Many firms with some differentiation (restaurants, clothing) give each limited pricing power - monopolistic competition.
5. Wheat is a homogeneous product; buyers shop on price Farmer is a price taker - must accept market price \$4 Charge \$10 zero sales; they lose all customers Only choice: sell at market price or exit the market
6. One dominant firm = monopoly element But minor competitors (Linux, Apple) exist Classify as dominant monopoly or tight oligopoly Key: MS sets prices; competitors follow or specialise
7. Two large firms with big market share = oligopoly Smaller firms are fringe; duopoly is a type of oligopoly Two firms can collude on price (illegal) or compete Result: price higher than perfect competition, lower than monopoly
8. Many sellers & buyers, identical products, price takers, easy entry, efficient prices.
9. One seller, unique product, price maker, high barriers, no close substitute.
10. Few large sellers (typically 2-10), differentiated or similar products, interdependent pricing.

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