

# Market Structures and Market Failures

## What happens when markets do not work perfectly?

### Speaking of Economics

As you complete the Reading Notes, use these terms in your answers:

market structure	monopolistic competition
perfect competition	market failure
monopoly	externality
oligopoly	public goods

### PREVIEW

Suppose you want to start a new business. Review the following scenarios and decide under which conditions you would prefer to start your business. Give at least two reasons to justify your selection.

- Open a video game store in a small town that has many other successful video game stores
- Begin the first, and only, babysitting service in your neighborhood
- Start a music store in a small town that has only two other music stores
- Create a unique clothing line that targets teenagers

### READING NOTES

#### Section 2

1. Define the four main characteristics economists use to define market structure: number of producers, similarity of products, ease of entry, and control over prices. Then create a mnemonic

phrase to help you remember these four characteristics. For example, one phrase might be, *Nobody Sleeps in Economics Class*.

2. Create a spoke diagram for perfect competition. Use the four main characteristics of perfect competition as the main spokes. To each main spoke, add one or two spokes with examples or simple illustrations that represent that characteristic.
3. Make a simple sketch of a consumer and a producer. Add a thought bubble for each person that explains one of the benefits of perfect competition.

#### Section 3

1. What is imperfect competition?
2. Create a spoke diagram for monopoly. Use the four main characteristics of monopoly as the main spokes. To each main spoke, add one or two spokes with examples or simple illustrations that represent that characteristic.
3. Make a simple sketch of a software consumer and a software producer (other than Microsoft). Add a thought bubble for each person that explains one of the consequences of the monopoly case study of Microsoft.

#### Section 4

1. Create a spoke diagram for oligopoly. Use the four main characteristics of oligopoly as the main spokes. To each main spoke, add one or two spokes with examples or simple illustrations that represent that characteristic.
2. Use these terms to explain how an oligopoly can end up acting like a monopoly: *price leadership, collusion, cartel*.

3. Make a simple sketch of an oil consumer and an oil producer. Add a thought bubble for each person that explains one of the consequences of oligopoly.

**Section 5**

1. Create a spoke diagram for monopolistic competition. Use the main four characteristics of monopolistic competition as the main spokes. To each main spoke, add one or two spokes with examples or simple illustrations that represent that characteristic.
2. For each of the four factors of nonprice competition, find a print ad (newspaper, magazine, or Internet) that focuses on that factor. Tape each ad into your notebook. Circle the example of the factor, and write a brief explanation of which factor is being used and how.
3. Make another simple sketch of a consumer and a producer. Add a thought bubble for each person that explains one of the consequences of monopolistic competition.

**Section 6**

1. Create two simple political cartoons. One should represent a positive externality and the other a negative externality. Write a short caption for each cartoon explaining what the externality is in each case.
2. Explain why both positive and negative externalities are considered market failures.

3. Use what you have learned about public and private goods to complete this table in your notebook.

	Private Good	Public Good
Provided by the market system? Explain.		
Excludable? Explain.		
Rival in consumption? Explain.		

**P R O C E S S I N G**

Think of a good or service that you use and are familiar with. Choose a product that was not discussed in class or during the activity. Then answer these questions:

1. What market or industry is your good or service a part of?
2. Brainstorm how the four characteristics of market structures—number of producers, similarity of products, ease of entry, and control over prices—apply to that market or industry. Consider looking on the Internet or in print materials related to your good or service.
3. Write a paragraph explaining which market structure—perfect competition, monopoly, monopolistic competition, or oligopoly—*best* describes the market for your good or service. Base your explanation on your analysis from Question 2.