FAQ:

(1) What is market concentration?

A. Market concentration is a criterion that can be used to rank order various distributions of firms' shares of the total production or total capacity or total reserves in a market.

(2) When market concentration is used?

A. Market concentration is used when smaller firms account for large percentage of the total market.

(3) Explain the manifestation of market concentration.

A. Normally market concentration in the industrial and services sector may be manifest in any or all of the following forms:

1. Considerable share of productive capacity:

If productive capacity of the firm is higher than the required capacity under the law in the relevant country than it is said to be the dominant position of that firm in the relevant market. As a result, the firm will be able to buy the raw material with lower prices and will be able to control the prices of the raw material. Then the firm is able to supply more goods and services and control the market with lower prices of the product or a service, because it is also in a position to control the price of the commodity or service it produces.

2. Control over the market:

If an undertaking either by itself or together with its inter-connected undertakings control over the certain share of the market then it is also known as market concentration. Larger the share of the firm in the market, larger will be control over prices in the market. This kind of firm is normally regarded as a dominant undertaking.

3. Large assets:

The value of the assets of the firm will also give some indication of the market concentration too. Larger the assets of the firm, larger will be the monopoly.

4. Considerable share in employment:

If the firm is employing large number of persons in the factory and its share in total employment of the industry is large then it also becomes an instrument to control the wages of the labor. The larger firm is normally in a position to control the price of the labor. If it is in a position to pay less wages to the labor, then the production cost will be less and price of the product will be lower in the market and that will give the firm an added advantage in the market of the product. Therefore, the percentage of the workers of the industry employed be a firm is sometimes taken to decide the extent of its economic power and dominance.

(4) Elucidate the market concentration.

A. There are many factors that contribute to the market concentration that leads to economic power. The Monopolies Inquiry Commission in India has spelt out the following causes:

1. Growth of Joint Stock Companies and Technological Advances:

Development of joint stock company form for the production of goods and services leads to economies of scale. Production of a good or service on large scale naturally brings down the fixed cost of production. That also leads to technological advances for further reduction of cost. This is the main cause of the market concentration. The urge of reduction in cost of production leads to research and development activities in the firm to make the firm competitive in the market.

2. Inter-connection:

Inter-company investments, inter-locking of directors, mergers and acquisitions and amalgamations etc have also contributed to the market concentration in various sectors of economy.

3. Managing Agency:

The system of managing agency supplying managerial skill in different forms and diverse ways has proved a fruitful source for market concentration.

4. Control and Command economy:

The system of controls in the form of industrial licenses, import restrictions, exchange control etc have also helped the big business houses to remain big enough to control the market in India for long time. These controls normally restrict the competition in the market and lead to market concentration.

5. Inherent Opportunities:

Those who are economically powerful and wealthy always try to control the market for profit maximization. The working of India's planned economic growth has encouraged this process of market concentration by facilitating the growth of existing big business houses in India.

(5) Give the meaning of contestable markets.

A. It refers to markets where there is an industry with freedom of entry and exit of firms and presence of low sunk costs. The theory of contestability suggests the number of firms is not so important, but the threat of competition is important.

(6) Explain Monopoly and market concentration.

A. Monopoly strictly refers to a situation where the whole market for a product is controlled by a single firm and there is no substitute for that product. Normally, this kind of market is rare and the term ‘monopoly’ is used to refer to ‘normal monopoly’ situation. Degree of monopoly indicates the extent control or power of a monopolist firm. Today it is usual to describe a firm as monopolist if it by itself or with a few other firms, controls the major part of the market of a particular good or a service.