FAQs

1. What is market structure?

The interconnected characteristics of a market, such as the number and relative strength of buyers and sellers and degree of collusion among them, level and forms of competition, extent of product differentiation, and ease of entry into and exit from the market

2 .What are types of market structure?

Four basic types of market structure are (1) Perfect competition: many buyers and sellers, none being able to influence prices. (2) Oligopoly: several large sellers who have some control over the prices. (3) Monopoly: single seller with considerable control over supply and prices. (4) Monopsony: single buyer with considerable control over demand and prices.

3. What did Schumpeter think about market structure and innovation?

Schumpeter believed that innovative capacity of monopolist firm is more than competitive firms as he has more control over price and has a lower price elasticity than a competitive firm.

4. What was Arrow's thought on market structure and innovation?

Arrow postulated that a competing firm would rather try hard to grab the market share by continuous innovation.

5. How do entry and exit barriers affect the potential entrant?

When barriers to entry are low or non-existent, monopolists usually try to innovate rapidly to retain their market share and high profits. If the barriers to entry are high, the incumbent will have no immediate need to invest in new technologies as its existing monopoly is less likely to be challenged.

6. Write arguments in favor of monopoly.

Arguments in favour of monopoly are;

- Concentrated firms can better finance R & D activities.
- Better economies of scale especially in concentrated large firms.
- Better position to protect the patents
- Rigorous attitude for countering potential competition

7. Write arguments against monopoly.

Arguments against monopoly are;

- Monopoly firms will become lax and inefficient.
- The firms in concentrated markets will have less inclination to invent.
- Innovation limits monopolist's profits.
- Cost of re-equipment will exceed the benefits of the same.

8. What is the concept of replacement effect by Arrow?

A pre-innovation monopolist has a weaker incentive to innovate than a firm operating in a competitive market. For a monopolist, innovation simply replaces one profitable investment with another, which Arrow called the ―replacement effect.

9. What is the concept of creative destruction by Schumpeter?

Creative destruction, a term coined by Joseph Schumpeter in "Capitalism, Socialism and Democracy" in 1942, describes the "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one." This occurs when innovation deconstructs long-standing arrangements and frees resources to be deployed elsewhere.

10. How does Demsetz criticize Arrow's postulations?

Demsetz criticizes Arrow's postulations on two grounds;

- The inventor possess the monopoly power not only to innovate but also decide on royalties.
- The normal restrictive effect of monopoly on output is not concerned with incentive to invent.