CLASS XI | CBSE | 2025-26

INTRODUCTORY

MICROECONOMICS

CHAPTER 12

Forms of Market

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Chapter Overview

What You Will Learn

* Meaning and features of Perfect Competition

* Meaning and features of Monopoly

* Meaning and features of Monopolistic Competition

* Meaning and features of Oligopoly

* Comparison across all four market forms

* Price determination in different markets

Exam Importance: Very High

The big comparison table of all 4 market forms is a staple 6-mark question. Features of each market, especially distinguishing Monopoly from Monopolistic Competition, are also frequently tested.

1. Perfect Competition

DEFINITION: Perfect Competition

Perfect Competition is a market structure in which there are a large number of buyers and sellers, homogeneous (identical) products, free entry and exit, and perfect knowledge of market conditions. No single buyer or seller can influence the price.

Features of Perfect Competition:

Feature	Explanation
Large number of buyers and sellers	No single buyer/seller can influence market price. Each is a price-taker.
Homogeneous (identical) product	All firms sell exactly the same product. No differentiation.
Free entry and exit	Firms can enter or leave the industry freely. No barriers.
Perfect knowledge	Buyers and sellers have complete information about price and product.
Perfect mobility of factors	Labour, capital, and other factors move freely across uses.
No transport cost	Single uniform price prevails everywhere.
AR = MR	Price is constant for each firm. AR = MR = Price (horizontal demand curve).

EXAMPLE: Real-Life Example

The stock market (share market) is the closest real-world example. Prices are set by overall market forces, not individual traders. Agricultural markets (mandis) are also considered near-perfect competition.

2. Monopoly

DEFINITION: Monopoly

Monopoly is a market structure in which there is only ONE seller of a commodity with no close substitutes, and entry of new firms is strictly blocked. The monopolist is a price-MAKER.

Features of Monopoly:

Feature	Explanation
Single seller	Only one firm controls the entire supply of the product.
No close substitutes	The product has no good alternatives. Buyer must buy from this seller or not at all.
Blocked entry	Other firms cannot enter due to legal, technical, or economic barriers.
Price maker	The monopolist can set price (charges what the market can bear).
AR > MR	To sell more, price must be reduced -> demand curve slopes downward.
Supernormal profit	Can earn profits above normal in the long run due to no competition.

EXAMPLE: Real-Life Example

Indian Railways (earlier) had monopoly in rail transport. De Beers in diamond market. Government utility companies (water supply, electricity in many regions) are natural monopolies.

Types of Barriers in Monopoly:

* Legal barriers: Patent rights, government licences (e.g., pharmaceutical patents)

* Natural barriers: Control over scarce natural resources (e.g., diamond mines)

* Economic barriers: High startup costs, economies of scale

3. Monopolistic Competition

DEFINITION: Monopolistic Competition

Monopolistic Competition is a market structure in which there are a large number of sellers selling similar but differentiated products. Each firm has some monopoly power over its own product due to branding and differentiation.

Features of Monopolistic Competition:

Feature	Explanation
Large number of sellers	Many firms compete, but each sells a slightly different product.
Product differentiation	Products are similar but not identical. Differences in brand, quality, packaging, colour.
Freedom of entry and exit	Firms can enter or leave relatively freely. No strict barriers.
Selling costs	Advertising and marketing are important. Firms compete through non-price competition.
Partial price control	Each firm is a partial price-maker due to product differentiation.
Non-price competition	Firms compete through advertising, branding, after-sales service.

EXAMPLE: Real-Life Examples

Soap brands (Lux, Dove, Lifebuoy), Toothpaste brands (Colgate, Pepsodent, Sensodyne), Fast food chains (McDonald's, Burger King, KFC), Clothing brands, Mobile phones (Samsung, Apple, OnePlus).

4. Oligopoly

DEFINITION: Oligopoly

Oligopoly is a market structure in which there are only a FEW large sellers (2 to 10 approximately), producing either identical or differentiated products. Each firm is highly interdependent on others.

Features of Oligopoly:

Feature	Explanation
Few large sellers	Small number of dominant firms control the market.
Interdependence	Each firm watches its rivals. A price change by one firm affects all others.
Price rigidity	Firms avoid changing prices due to fear of price wars.
Barriers to entry	High capital requirements, economies of scale, brand loyalty act as barriers.
Product may be homo/hetero	Pure oligopoly: identical products (steel, cement). Differentiated oligopoly: cars, phones.
Non-price competition	Advertising and branding are used heavily.

EXAMPLE: Real-Life Examples

Aviation industry (IndiGo, Air India, SpiceJet), Automobile industry (Maruti, Tata, Hyundai), Telecom (Jio, Airtel, Vi), Cement industry (Ultratech, Ambuja, ACC).

MEMORY TRICK

TRICK: OLIGOPOLY = 'OLIGO' means FEW. Think 'Oligo-pore' = few pores. 'Mono' = One. 'Perfect' = Many equal firms. 'Monopolistic' = Many but different products.

5. Master Comparison Table: All 4 Market Forms

EXAM TIP

This comparison table is the most important part of this chapter. Learn all rows carefully. This table alone can fetch 6 marks in the board exam.

Feature	Perfect Competition	Monopoly	Monopolistic Competition	Oligopoly
Number of sellers	Very large (infinite)	One only	Large (many)	Few (2-10)
Product type	Identical/Homogeneous	Unique, no substitutes	Similar but differentiated	Identical or differentiated
Entry/Exit	Free (no barriers)	Blocked (high barriers)	Relatively free	Difficult (barriers exist)
Price control	No (price-taker)	Full (price-maker)	Partial	Interdependent
Demand curve	Horizontal (perfectly elastic)	Downward sloping	Downward sloping (flatter)	Kinked demand curve
AR vs MR	AR = MR	AR > MR	AR > MR	AR > MR
Long-run profit	Normal profit only	Supernormal possible	Normal profit	Supernormal possible
Selling costs	None (not needed)	Very little (no competition)	Very high (advertising)	High (advertising)
Interdependence	None	None (only seller)	Limited	Very high
Examples	Stock market, agri market	Indian Railways (earlier)	Soap, toothpaste, phones	Cars, telecom, aviation

6. Price Determination

Perfect Competition: Price set by market (demand = supply). Individual firm is price-taker. P = AR = MR = MC at equilibrium.

Monopoly: Price set by monopolist at level where MR = MC. Price > MR. Monopolist can charge higher price by restricting supply.

Monopolistic Competition: Price set by each firm for its own brand. Slightly above PC due to differentiation. Price competition AND non-price competition.

Oligopoly: Price tends to be RIGID (sticky). Firms avoid price changes. Common strategies: collusion (cartels), price leadership.

Exam-Oriented Questions and Model Answers

[1-Mark] In which market structure is the demand curve perfectly elastic?

Model Answer: Perfect Competition. Since the firm is a price-taker, it can sell any quantity at the market price. The demand curve (AR=MR) is a horizontal straight line -- perfectly elastic.

[1-Mark] Define Monopoly.

Model Answer: Monopoly is a market structure with only one seller, no close substitutes for the product, and complete restriction on entry of new firms. The single seller is a price-maker.

[3-Mark] State any three features of Monopolistic Competition.

Model Answer: 1. Large number of sellers: Many firms operate in the market. 2. Product Differentiation: Products are similar but not identical -- differentiated by brand, quality, packaging. 3. Selling Costs: Heavy advertising is necessary to attract customers and maintain brand loyalty. (Note: Each firm has partial monopoly over its own differentiated product.)

[4-Mark] Distinguish between Perfect Competition and Monopoly.

Model Answer: Basis | Perfect Competition | Monopoly Number of sellers | Very large | Only one Product | Homogeneous (identical) | Unique, no substitutes Entry/Exit | Free | Blocked Price control | Price-taker (no control) | Price-maker (full control) AR vs MR | AR = MR | AR > MR Long-run profit | Normal profit only | Supernormal profit possible Example | Agricultural markets | Indian Railways

[6-Mark] What are the main features of Perfect Competition? How does it differ from Monopolistic Competition?

Model Answer: FEATURES OF PERFECT COMPETITION: 1. Very large number of buyers and sellers 2. Homogeneous product 3. Free entry and exit 4. Perfect knowledge 5. Perfect factor mobility 6. No selling costs (advertising unnecessary) 7. Single uniform price (AR=MR) DIFFERENCES FROM MONOPOLISTIC COMPETITION: * Products: PC = Identical, MC = Differentiated * Selling costs: PC = None, MC = Very high * Price control: PC = None (price-taker), MC = Partial * Demand curve: PC = Horizontal, MC = Downward sloping (flatter) * Examples: PC = Stock market, MC = Soap/Toothpaste brands

[HOTS] Why do firms in oligopoly tend to keep their prices stable even when costs change?

Model Answer: Firms in oligopoly face a kinked demand curve. If a firm raises price, rivals do NOT follow -- so the firm loses many customers (elastic demand above current price). If a firm reduces price, rivals immediately follow to avoid losing market share -- so no firm gains much (inelastic demand below current price). Result: Changing price in either direction leads to a worse outcome. So firms keep prices STABLE (rigid/sticky) and compete through advertising and product improvements instead.

Chapter Summary and Quick Revision

LAST-MINUTE REVISION BOX

1. 4 market forms: PC, Monopoly, Monopolistic Competition, Oligopoly

2. PC: Many sellers, same product, price-taker, AR=MR (horizontal)

3. Monopoly: One seller, no substitutes, price-maker, AR>MR, blocked entry

4. Monopolistic Competition: Many sellers, differentiated product, heavy advertising

5. Oligopoly: Few sellers, interdependent, kinked demand curve, price rigidity

6. Long-run profit: PC and Monopolistic = Normal | Monopoly and Oligopoly = Supernormal possible

7. Selling costs: PC = 0 | Monopoly = Low | Monopolistic/Oligopoly = Very High

MEMORY TRICK

TRICK TO REMEMBER MARKET FORMS: PC = Perfect CROWD (many identical sellers) Monopoly = MONO = ONE Monopolistic = MANY with BRANDS (like shopping mall) Oligopoly = OLIGO = FEW giants (like Big Tech companies)