Market Structure

“Market structure refers to the nature and degree of competition in the market for goods and services. The structures of market both for goods market and service (factor) market are determined by the nature of competition prevailing in a particular market.”

Meaning of Market

Ordinarily, the term “market” refers to a particular place where goods are purchased and sold. But, in economics, market is used in a wide perspective. In economics, the term “market” does not mean a particular place but the whole area where the buyers and sellers of a product are spread.

The essential features of a market are:

- An Area: In economics, a market does not mean a particular place but the whole region where sellers and buyers of a product ate spread. Modem modes of communication and transport have made the market area for a product very wide.
- One Commodity: In economics, a market is not related to a place but to a particular product. Hence, there are separate markets for various commodities. For example, there are separate markets for clothes, grains, jewellery, etc.
- Buyers and Sellers: The presence of buyers and sellers is necessary for the sale and purchase of a product in the market. In the modem age, the presence of buyers and sellers is not necessary in the market because they can do transactions of goods through letters, telephones, business representatives, internet, etc.
- Free Competition: There should be free competition among buyers and sellers in the market. This competition is in relation to the price determination of a product among buyers and sellers.
- One Price: The price of a product is the same in the market because of free competition among buyers and sellers.

Market Structure

The **Market Structure** refers to the characteristics of the market either organizational or competitive, that describes the nature of competition and the pricing policy followed in the market.

Thus, the market structure can be defined as, the number of firms producing the identical goods and services in the market and whose structure is determined on the basis of the competition prevailing in that market.

Types of Market Structure

The major determinants of the market structure are:

1. The number of sellers operating in the market.
2. The number of buyers in the market.
3. The nature of goods and services offered by the firms.
4. The concentration ratio of the company, which shows the largest market shares held by the companies.
5. The entry and exit barriers in a particular market.
6. The economies of scale, i.e. how cost efficient a firm is in producing the goods and services at a low cost. Also the sunk cost, the cost that has already been spent on the business operations.
7. The degree of vertical integration, i.e. the combining of different stages of production and distribution, managed by a single firm.
8. The level of product and service differentiation, i.e. how the company's offerings differ from the other company's offerings.
9. The customer turnover, i.e. the number of customers willing to change their choice with respect to the goods and services at the time of adverse market conditions.

Thus, the structure of the market affects how firm price and supply their goods and services, how they handle the exit and entry barriers, and how efficiently a firm carry out its business operations.