Answer the following questions

1. How is competition observed in the market economy?
2. In what cases does the public lose the benefits of competition?
3. What is the main goal of antitrust laws?
4. What are the major antitrust laws in the USA and their characteristics?
5. What are three categories of mergers?
6. Why do some companies establish joint ventures?

Define the following words and expressions.

belief	penalty
damage	advertising
violator	particular
to sue	benefit
dissolve	conspiracy
to fix price	prohibit
safeguard	acquire
to fine	team up
responsibility	unfair
joint venture	restrain
to rig bids	injure
major	merger
	personnel

1.20. COMPETITION

Competition refers to the **rivalry** among buyers and sellers. Sellers compete by trying to produce the goods and services buyers want at the lowest possible price. Those unable or unwilling to sell at a price low enough to attract buyers will be unable to sell their goods or services and they will leave the market. Competition benefits us all. It also **motivates producers** to improve the quality and increase the **variety** of goods and services. Now we shall describe the basic competitive markets: perfect competition, monopolistic competition and oligopoly.

PERFECT COMPETITION requires all of the following conditions:

- Many buyers and sellers; no individual or business can influence the market.
- Identical goods and services are offered for sale.
- No buyer or seller knows more than any other about the market.
- Buyers and sellers are able to leave or enter the market at will. (The American Stock Exchange is a good example of perfect competition.)
- There are so many buyers and sellers of stocks and bonds that no individual or group can control the market for any single **security**.

- The individual securities of a particular firm are totally interchangeable.
- All securities **transactions** are recorded and the information is made available to the public.
- Traders can buy or sell securities at will.

In general, the more competitive the market, the better it is for consumers.

Perfect competition exists in only a few businesses or industries, nevertheless stockbrokers provide an example of ***MONOPOLISTIC COMPETITION*** or ***IMPERFECT*** (when the products in the market are different or thought to be different. Many firms explain how they are "new and improved," or "the best value for the lowest price." The process of creating **uniqueness** in products is known as product differentiation, and when it is successful, it enables a firm to create product loyalty so its customers prefer its products over the competitor's. To attract customers businesses use customer services, highly visible labels, **warranties** and support.

OLIGOPOLY. It is a term applied to market dominated by a few (three or five) large firms. General Motors, Ford, Toyota, and Honda are the most important oligopolists in this industry. Price competition is less effective where there is ***OLIGOPOLY***. These firms can affect the market price by changing the **quantity** they sell. These firms often practice ***PRICE LEADERSHIP*** when one firm in the industry, usually the largest, sets a price that other firms follow. Sometimes they use ***COLLUSION*** – a secret agreement between two or more firms to fix prices or share the market. These agreements usually are illegal. ***CUSTOM*** is the practice of establishing prices and market shares based on long-standing traditions.

Answer the following questions.

1. What is competition?
2. How do sellers compete?
3. How does competition motivate producers?
4. What conditions does perfect competition require?
5. How can you characterise monopolistic competition?
6. How do businesses attract their customers?
7. What is oligopoly?
8. What do such firms practice?

Define the following words and expressions.

rivalry	warranty
transaction	variety
motivate	quantity
uniqueness	security
improve	