

**Competition on the market - perfect and imperfect competition,
price and non-price competition**

Private and non-private estates

Externalities

SYLLABUS OF 2nd LECTURE

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Competition on the market

2 types of competition on the market:

1. Competition between supply and demand

2. Competition on the supply side

- Analysis of the SUPPLY from „market structure“:
 - setting prices
 - setting outputs
 - making its own profits

Competition on the supply side

Dividing of competition according to producers position:

1. Perfect competition
2. Imperfect competition

Dividing of competition according to used instruments of competition conflict:

1. Price competition
2. Non-price competition

Perfect competition

Situation in „ideal“ conditions:

- **Conditions equity** for all market subjects
- There are a **lot of subjects on the supply side**
- There exist **free entry to a market**
- **Production is identical**
(quality of the same product from various producers)

Imperfect competition

Situation in „real“ conditions:

- **Unequal conditions** for all market subjects
- **There no exist free entry to a market**
- **Production is not identical**
(quality of the same product from various producers)
- **Subjects on the supply side (producers) realize their benefits**

3 forms of imperfect competition:

1. Monopoly

- one company

2. Oligopoly

- small group of producers

3. Monopolistic competition

- great group of producers

Price competition

Producers compete through product **price**:

2 ways how to compete by a price:

1. Decreasing of cost

2. Realisation of bigger amount of production from the same costs

- price decreasing should also results from:
 - **domination of supply over demand**

Non-price competition

Non-price tools:

- Production quality
- More extensive sale-conditions
- Advertisement
- Brand-name
- Positive brand reputation („Goodwill“)

Estates

= product or service for own consumption

Private estate

- payment for a estate
- Principle of „rivality consumption“

- Examples:
 - car - car purchase
 - medicine - drug purchase (using antibiotics during bacterial infection)

Non-private (public) estate

- Principle of „non-rivality consumption“

- Examples:
 - road
 - usage of road
 - radio wave
 - listening of radio
 - TV signal
 - watching TV
 - information received in public lecture
 - participation in public lecture

Mixed estate

- exclusion of another consumer from possibility of usage
 - collective consumption do not decrease its benefit
- Examples:
- physician's service – patient visit a physician in a hospital in his ambulance and receive health care (consultation, medical examination)
 - pharmacist's service – patient visit a pharmacist in a pharmacy and receive information concerning using drugs / consultation in the frame of provided pharmaceutical care

Externalities

= subject (person or company) make an action, which has impact to another subject (person or company).

This subject need not to pay for it,
or is not payed him for it (must pay for it).

Positive externalities

- producing of: external benefit
- Examples:
 - building up of a new public electricity decrease cost needed for lightening a back yard by a person

Negative externalities

- producing of: external cost
- Examples:
 - chemical factory produces contaminated water, people living in the neighbourhood must build up water-purifiers at their lands for own costs