

Competition & Free Enterprise - Student Notes

Directions:

Fill in the blanks.

Competition Within Economic Systems

1. Competition

- Is the business action of _____ companies striving to gain customers
- Helps consumers by:
 - providing more choices
 - _____
 - offering incentives

2. Types of Competition

- Include:
 - _____
 - exists when marketers compete on the basis of price
 - for example:
 - price wars
 - _____
 - focuses on factors such as features, quality, service and promotion
 - for example:
 - store loyalty cards, extended hours of operation, home delivery options, mass marketing

3. Competition

- Arises between companies _____
- Thrives in a free enterprise economy
- Encourages companies to:
 - improve products
 - _____
 - target different markets

Free Enterprise – freedom of private businesses to operate in a competitive manner for profit, without government controls

4. Competition

- _____ in communist or socialist countries as all production resources are _____

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5. Alternative Economic Systems

- _____ the following:
 - capitalism
 - _____
 - socialism

6. Capitalism

- Allows for the _____ and management of resources
- Provides a marketing system in which flexible prices are a necessity due to competition arising between producers
- Recognizes and encourages the _____ and wealth which may be acquired
 - seen as an incentive to promote creativity and productivity

7. Resources

- Are the capital, labor and _____ used in production operations
 - capital includes buildings and equipment
 - labor includes management and production workers
 - land includes renewable and _____

8. Communism

- Prohibits the _____ or management of resources
 - government regulates production resources
- Emphasizes income and _____

Private Ownership – ability of individual citizens to own and operate resources at their own discretion

9. Capitalism

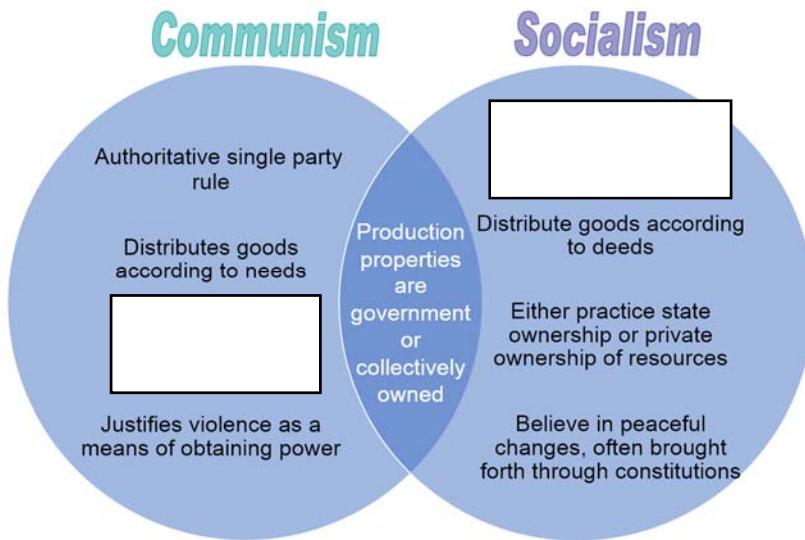
- Utilizes _____, meaning the government _____ and levels of output
 - for example:
 - a car company in a communist country may be told they can only produce 5,000 cars a month and must sell each at \$12,000

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10. Socialism

- Lies _____ capitalism and communism
- Resembles communism because most resources are _____
 - for example:
 - a car company in a socialist country will produce cars in a building using machinery and parts which the government, not the company, owns
- Provides many services back to its people, such as health care

11. Communism vs. Socialism



Alternative Market Structures Segment

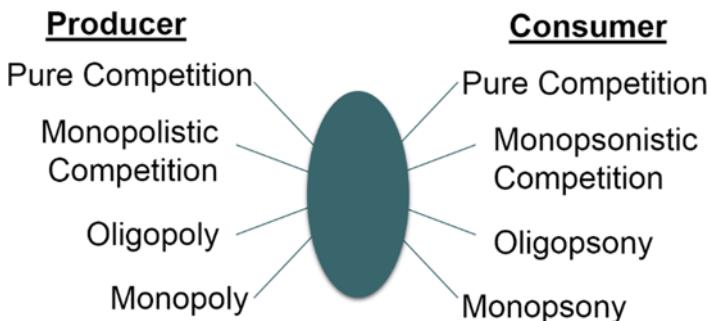
1. Alternative Market Structures

- Account for eight general forms of _____
 - four for buyers
 - four for sellers
- Include the following:
 - pure competition
 - monopolistic competition
 - _____
 - pure monopoly

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2. Alternative Market Structures

- Allow for _____ different relationships between the _____



3. Pure Competition

- Is also known as _____
- Is the opposite of a monopoly
- Allows for easy access and freedom of buyers and sellers to get _____ of the market

4. Pure Competition

- Creates markets with _____ of buyers and sellers exchanging a _____
 - for example:
 - wheat, coffee, corn or other commodities

Homogenous – of or exhibiting similar features; two or more objects which are the same

5. Pure Competition

- Is based upon the following assumptions:
 - all firms _____
 - there is free entry and exit to the market
 - all firms sell completely identical goods
 - there are no _____

6. Pure Competition

- Stipulates the individual seller _____ the price of the product
 - prices reflect the _____ of the product
- Includes providing perfect information concerning the product
 - all buyers and sellers know the prices of all other buyers and sellers

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7. Pure Competition

- Is a benchmark in which _____ can be compared
 - real-world experiences differentiation in production,

8. Monopolistic Competition

- Refers to a market structure where many firms _____ when selling similar, but _____ products
 - for example:
 - restaurants and clothing stores

Firm – organization which employs resources in order to produce a good or service for a profit

9. Monopolistic Competition

- Allows firms to make production decisions and set prices
- _____ can have _____ obtain a large share of the market even though consumers have many choices to choose from

10. Monopolistic Competition

- Is based on the following assumptions:
 - all firms maximize profits
 - there is _____ to the market
 - firms sell differentiated products
 - consumers may _____ for one product over another
- Does not result in a socially optimal level of output because firms have more power and can influence price to a certain point

11. Oligopoly

- Literally means “_____”
- Is most distinguished by the firms interdependence on pricing and marketing
- Creates established markets which are _____ to enter
 - for example:
 - most agricultural equipment brands are owned by three multinational companies – John Deere®, CNH Global® or AGCO®

Interdependence – mutual dependence

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12. Oligopoly

- Is based on the following assumptions:
 - all firms maximize profits
 - oligopolies _____
 - there are barriers to enter and exit the market
 - products may be _____
 - there are only a few firms which dominate the entire market

13. Oligopolistic Interdependence

- Accounts for the firms consciousness of their competition's _____
- Describes the tendency of products in these markets to be _____

14. Oligopolistic Interdependence

- Is crucial in maintaining an operation _____ as a decrease in price of one company could directly result _____
 - for example:
 - if John Deere® notices an AGCO® company has lowered its price on tractors, usually they will drop their prices as well so they do not lose customers to their competitor

15. A Monopoly

- Is an industry with _____ producing the product, thus _____
 - for example:
 - at one time, Apple® was accused of being a digital media player and online music retailer monopoly as their iPods® did not support files not purchased from iTunes® and purchases from iTunes® could not be played on other digital music players

16. A Monopoly

- Produces a _____ which has no close substitutes
- Must possess economic, legal or _____ to prevent other firms from entering the market

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17. A Monopoly

- Is based on the following assumptions:
 - the monopolist (company who has the monopoly) _____
 - sets the price
 - high barriers to _____ the market
 - there is only one firm dominating the entire market
- Is not desirable because it results in lower outputs and higher prices compared to more competitive markets

18. A Monopoly

- Can occur due to barriers to entering the market which are generally classified into the following groups:
 - _____
 - a company or individual owns all of the resource
 - _____
 - laws can be put in place so only one firm can make a product
 - patent or copyright law

19. A Monopoly

- Can occur due to barriers to entering the market which are generally classified into the following groups:
 - _____
 - if it is more efficient for one producer to supply the entire market than for two or more suppliers
 - _____
 - a firm intentionally takes steps to place barriers to entry into a market

20. Natural Monopoly

- Is a type of monopoly which exists as a result of the _____ or startup costs of operating a business in a specific industry
 - an industry where _____ is more costly than production by a monopoly

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21. Natural Monopoly

- Can arise in industries which require _____, technology or _____ to operate
 - for example:
 - utility companies (gas network, electricity grid, water pipe networks) and railway infrastructure

22. Government Regulation of Monopolies

- Typically falls into the following categories:
 - _____
 - government controls mergers and acquisitions to make sure competition exists and to prevent collusion
 - _____
 - government specifies the price a monopolist is able to charge for their product

23. Government Regulation of Monopolies

- Typically falls into the following categories:
 - _____
 - government directly controls the firm's behavior (very rare in free enterprise economies)
 - _____
 - nothing is done due to possible negative effects of government intervention

Free Enterprise in the United States

1. Anti-Trust Laws

- May also collectively be known as _____
- Allow fair access to markets for entrepreneurs
- Protect the _____ from issues such as price gouging or discrimination

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2. Anti-Trust Laws

- Address the following three main concerns:
 - practices or agreements which _____ and/or competition between other companies
 - abusive behavior or anti-competitive tendencies of companies _____; includes price gouging, predatory pricing or the refusal to deal with certain entities
 - mergers or acquisitions between large corporations which may result in a threat to the competitive process

3. The Microsoft® Anti-Trust Trial

- Began in _____
- Stated Microsoft® was abusing its monopoly over PC operating systems
 - bundled the Microsoft® operating system Windows® with the _____, limiting or even preventing competition from other Internet browsers

4. Revenue vs. Profit

- Is defined as the following
 - revenue accounts for the _____ before any deductions are made
 - profit is the _____ of a producer after subtracting operating costs such as:
 - wages
 - rent
 - utilities

5. Alternative Buyer Structures

- Include the following:
 - pure competition:
 - many buyers and sellers for a homogeneous product
 - _____
 - modest amount of buyers and many sellers for a differentiated product
 - _____
 - just a few buyers
 - monopsony:
 - single buyer

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6. Free Enterprise Markets

- Encourage _____
- Cannot exist in countries where the government owns all production enterprises
- Support the doctrine of _____ to a certain degree

7. Free Enterprise Markets

- Are able to sell products on an _____
 - must adhere to trade regulations set forth by countries
- Fluctuate depending on the _____

8. Laissez-Faire

- Is a _____ which literally translates to “let do”
- States there should be no government interference in the economy
- Does not fully exist in the United States as the government imposes in the following ways:
 - institutes _____
 - establishes welfare programs
 - supports anti-trust regulation

9. Free Enterprise Markets

- Are often criticized because of the following:
 - promotes _____ between the classes
 - puts power into the hands of the _____
 - essential needs (health care, insurance, heating, etc.) are not provided to those who cannot afford them

10. The United States

- Practices capitalism using a _____
- Utilizes many combinations of the market-buyer structures
- Encourages _____ between producers in order to promote the free enterprise economy

11. Free Enterprise

- Promotes free will and _____ for small business owners
- Allows entrepreneurs to start new businesses without fear of excessive government regulation
- Gives individuals and _____ the ability to compete for their own personal financial gain

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12. Free Enterprise

- Requires small business owners to have a _____, to be business savvy and to have a _____ for their small business