Unit 3: Market Structures and Labor

This unit deals with classifications of business and workers, some of the aspects of big business, and how unions attempt to act to counteract the power of businesses.

You have already learned a bit about one of the classifications of market structures, perfectly competitive. In this unit we will learn about all of the market structures in depth. The phrase market structure refers to the classification of an industry based on the number of sellers in a market and the influence that the sellers have in the market place. One structure has many sellers with no influence over the market and price, another has one seller with a good deal of influence on the market and price, and still others have varying numbers of sellers with varying levels of influence.

Here are the different structures in order of number of sellers from most to least.

- Perfectly Competitive
- Monopolistic Competition
- Oligopoly
- Monopoly

In a perfectly competitive market structure:

- Sellers have little to no market influence
- There are many buyers and sellers
- There is no variation in the product
- There is full knowledge of prices and product
- There is easy entry or exit into the market

An example of a perfectly competitive market might be the market for apples. There are many apple growers (a high level of competition). Apples from one farm cannot really be distinguished from apples from another farm. The prices of apples and the inputs going into growing apples can be easily acquired. While land might be expensive it is relatively easy for apples to be grown. Costs are not high, and there is no secret information needed to grow them. For all of these reasons, the sellers of apples really have no influence over the price of their apples.

With monopolistic competition:

- Sellers have some market influence
- There are many sellers
- Sellers sell similar products
- Sellers try to differentiate products
- Buyers believe products differ
An example of monopolistic competition might be the market for jeans. There are many sellers of jeans. Basically jeans all serve the same function, and they are made out of the same material. If this is the case, why is there such a wide range of prices? A pair of jeans can cost $10 at Wal-Mart while another pair of jeans may cost hundreds of dollars at a specialty clothing store. In this market structure, sellers participate in non-price competition. This means that sellers try to compete without using price (as they do in a perfectly competitive market). Often this is accomplished by product differentiation and advertising. Even though jeans might be similar, the sellers can create an image that influences the selection of buyers.

In an oligopoly:

Sellers can have some market influence
There are few sellers
Products are similar
Sellers try to differentiate their products

An example of an oligopoly might be cable providers. There are only a few providers of cable TV and internet. Because of this, prices tend to be higher than if there were many competitors. But in this market structure there is still competition. However, just like in the monopolistic competitive structure, the sellers compete using methods other than prices, including product differentiation, advertising, offering special deals, etc. Despite some competition, sellers in an oligopolistic structure do have some control over the market.

**Monopolies** are characterized by having:

Control over the supply and prices of a product
A single seller
No close substitutes
Barriers to entry

Monopolies can exist for several reasons. One might be because of geographic circumstances. A geographic monopoly occurs because a business is located in a good location. An example of this might be a general store in a remote area. The store might be the only place to buy certain items for many miles. Because of this, the store basically acts as a single seller.
Another reason why a monopoly might exist is because the government awards a patent or copyright for an innovative idea. This type of monopoly is known as a technological monopoly. If a company invents a new technology, they can gain exclusive rights to selling their technology. The same is true with intellectual property. Writings and artistic works are protected and given protections to be utilized by their creators.

Monopolies can also be created by the government. An example of a government monopoly might be the local water company. In this case, because access to water is considered to be a public good, the government maintains control of local water sources.

Probably the most common perception of a monopoly is a natural monopoly. A natural monopoly occurs when a company produces a product more efficiently, at a lower cost than the competition, thus eliminating the competition. Back in history companies such as Standard Oil and U.S. Steel were able to develop into this type of monopoly. However, due to government legislation (examples later) companies like these are often limited by the government.

At this point it is important to understand how large companies come to be organized. Historically there have been several types of business combinations.

In the 1800s companies like Standard Oil grew through organizing into trusts. At that time, companies were not allowed to cross state lines (they had to stay in one state). To get around this, the owner of Standard Oil (Rockefeller) gave ownership of several of his companies to others, allowing each company to operate in a different state. But the control of the companies was in the hands of a trust controlled by Rockefeller. The trust had no legal limitations regarding operating beyond state lines, even though each individual company did.

Another way for companies to get larger is through the creation of holding companies. Holding companies are created to own several companies, thus allowing the parts to work as one. One of the most famous holding companies today is Warren Buffet’s Berkshire Hathaway which has ownership in companies such as GEICO Insurance, Heinz, Jordan’s Furniture, Dairy Queen and many others.

Another large type of business is a conglomerate. A conglomerate is a company that owns other, often unrelated companies. One popular example of a conglomerate is Disney. In addition to all things Disney, The Walt Disney Company owns Pixar, ABC, ESPN, and Marvel Comics.

Another organization that allows greater control of the market is a cartel. A cartel is a business organization where separate economic players agree to act together to influence the market. While cartels are considered to restrain trade and are illegal in the U.S., they can still occur internationally. The best example of a cartel is OPEC, the Organization of Petroleum Exporting Countries. OPEC includes several oil producing countries who can act in unison to control the supply and thus the price of oil on the international market.

As with a cartel, often companies that are not owned by the same corporation can still act together. This is often occurs with an interlocking directorate. An interlocking directorate occurs when members of a board of a company also serve on the boards of other companies, therefore allowing the same individuals to control several companies. Some companies that have interlocking directorates include AIG, JP Morgan, Time Warner and Eli Lilli.
It is also important to understand how large companies grow through the acquisition or buying of other companies. Basically there have been two methods of growth: horizontal and vertical integration.

When one company buys another company that provides the same good or service we call that horizontal integration. An example of horizontal integration is when HP bought Compact computers. In this case, both of the companies sold similar goods. This allowed HP to control a greater share of the computer market.

When a company buys another company that provides a step in the process of producing or selling a good or service that they produce, we call that vertical integration. For example, when Live Nation (a company that manages artists) and Ticket Master (a company that sells event tickets) merged, the company gained control over the artists and the selling of tickets to the artists concerts, thus allowing it to have more control over different aspects of the same industry.

It is probably pretty easy to see why companies would want to get larger. They can increase profits and revenue. However, sometimes society might see a company as being too big and having too much influence. (Remember how Adam Smith extolled the virtues of competition). Because of this, there has been legislation created to limit the influences of companies. Below is a chart that contains two of the most important government actions created to regulate big business:

<table>
<thead>
<tr>
<th>Year</th>
<th>Act</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1890</td>
<td>Sherman Anti-Trust Act</td>
<td>Outlawed business practices that led to a restraint of trade</td>
</tr>
<tr>
<td>1914</td>
<td>Clayton Act</td>
<td>Outlawed business consolidation that restricted competition</td>
</tr>
</tbody>
</table>

**Justification for and Issues Dealing with Big Businesses**

One argument for allowing business to become large is that it is a natural occurrence in a market economy. It can also be argued that the possible abuses of big business can be limited by the power of large unions who can advocate for workers. Another argument to allow companies to grow is that larger companies can produce goods and services more efficiently than smaller companies. This brings us to the concept of economies of scale, which refers to the fact that larger companies can produce more with fewer resources. Because companies are allowed to become large in other countries, it could be argued that our companies would be at a competitive disadvantage if we limit the growth of businesses.

As for issues regarding big business, it could be argued that big businesses purposely restrict competition, and due to a lack of competition, they tend to produce goods inefficiently. Also, big businesses can limit production, which inflates prices and reduces the amount that consumers can buy. So businesses with control over a market do not have to respond to the wants of consumers as much as
smaller companies do. Lastly, some argue that the economic influence of big businesses carries over into our political system. The political influence they can gain through their financial means can limit the rights of others in our society.

**Labor**

In addition to learning how big businesses can be classified and organized, we can also look at how workers can be classified and how they can organize themselves.

The labor force can be classified by the type of work they complete. Here are a few common categories:

<table>
<thead>
<tr>
<th>Type of Worker</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue Collar Workers</td>
<td>Workers who perform non-farming, manual labor. They can include skilled and non-skilled workers</td>
<td>Factory workers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tradesmen</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Laborers</td>
</tr>
<tr>
<td>White Collar Workers</td>
<td>People who work in an office environment</td>
<td>Administrators</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lawyers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Engineers</td>
</tr>
<tr>
<td>Service Workers</td>
<td>Workers who provide a direct service to customers</td>
<td>Waitress</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hotel worker</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Barber</td>
</tr>
</tbody>
</table>

**Unions**

In attempts to better their salaries and working conditions, some workers have organized into unions. Unions were created to create a collective organization that can have greater bargaining power than an individual worker.

One main purpose of unions is to participate in collective bargaining on behalf of the unions members. **Collective bargaining** is the process where a union represents its members in contract negotiations. This can benefit workers because negotiating as a group may provide more leverage than workers negotiating as individuals. Common items that are negotiated may include wages, working conditions, hours, benefits, and rules for a reduction of workers if it is called for.

If negotiations between a union and an employer are not successful, the next step would be to go through the **mediation** process. This process brings in another person to help both sides in the negotiation find common ground. If mediation does to bring about a contract, the next
step is to go to arbitration. **Arbitration** is when both sides present their proposals to a third party, and that person makes a decision on the issues in the contract.

There have been times when negotiations have broken down. When this has occurred, one possible strategy for unions has been to go on strike. When union members **strike**, they refuse to work. Another strategy workers have used includes boycotts. With a **boycott**, a union will try to convince consumers not to buy the product produced by the company they are striking against. Unions hope that the loss of revenue from a boycott will put pressure on the company.

In response to the actions of unions, companies can have options as well. A company can have a **lockout**. A lockout is when the company shuts down production and does not allow the workers to work until they give into the company’s demands. If workers go on strike, companies can hire other workers, often referred to as **scabs** by union members. Also to combat strikes, companies can go to court and legally force striking workers back to work. This type of a court order is referred to as an **injunction**.

**Things to remember in this unit:**

The aspects of each market

The different types of monopolies and business combinations

The good and the bad of big business

The different classifications of workers

Unions

**Videos and Quizzes:**

[Market Structures](#)

**Accelerated Extension:**

Go to the following links to learn about game theory- a concept that helps to explain how oligopolies make decisions:

- [game theory- the prisoner's dilemma](#)
- [game theory- oligopoly](#)

Print out complete and pass in the following worksheet: [Game Theory](#)

**Quiz:**

[Unit 3 Quiz](#)
Assessments:

1. Watch the following documentary on Walmart- Walmart Documentary

Draw two sets of cartoons- One set demonstrating the positive aspects of Walmart one the negative grading will be based on the depth of information portrayed in the cartoons.

2. Read chapter 6 in New Ideas from Dead Economists

Write an essay that provides an in-depth discussion of Marx’s views on history, the collapse of capitalism and the transition to communism and discuss the extent to which Marx’s ideas might still be relevant today? Hint-think about the topics in this chapter!