Mona
Assistant Professor
Department of Economics
Maharaja Bahadur Ram Ranvijay Prasad Singh College
Veer Kunwar Singh University, Ara

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Topic : Imperfect Competition

Imperfect Competition

In economics, imperfect competition refers to a situation where the characteristics of an economic market do not fulfil all the necessary conditions of a perfectly competitive market, resulting in market failure.

In other words; Imperfect competition is a competitive market situation where there are many sellers, but they are selling heterogeneous (dissimilar) goods as opposed to the perfect competitive market scenario. As the name suggests, competitive markets that are imperfect in nature.

Roy Harrod was the first economist to develop the theory of imperfect competition and other authors, such as Edward Chamberlin and Joan Robinson renewed their interest and made major contributions. Nevertheless, it is important to point out that Cournot, in his "Researches into the Mathematical Principles of the Theory of Wealth", 1838, was the first to model this kind of market.

The most common forms of imperfect competition include:

monopolies, oligopolies, duopolies, monopolistic competition and monopsony

- **Characteristics of Imperfect Competitive market:**

1. Large number of Sellers and Buyers:
There are large numbers of sellers in the market. All these firms are small sized. It means that each firm produces or sells such an insignificant portion of the total output or sale that it cannot influence the market price by its individual action. No firm can affect the sales of any other firm either by increasing or reducing its output; so there is no reaction from other firms. Every firm acts independently without bothering about the reactions of its rivals. There are a large number of buyers and none of them can affect price by his individual action.

2. Product Differentiation:

Another important characteristic is product differentiation. The product of each seller may be similar to, but not identical with the product of other sellers in the industry. For example, a packet of Verka butter may be similar in kind to another packet of Vita butter, but because of the idea that there are differences, real or imaginary, in the quality of these two products, each buyer may have a definite preference for the one rather than for the other. As a result, each firm will have a group of buyers who prefer, for one reason or another, the product of that particular firm.

3. Selling Costs:
Another important characteristic of monopolistic competition is the existence of selling costs. Since there is product differentiation and products are close substitutes, selling costs are important to persuade buyers to change their preferences, so as to raise their demand for a given article. Under monopolistic competition, advertisement is not only persuasive but also informatory because a large number of firms are operating in the market and buyer's knowledge about the market is not perfect.

4. Free Entry and exit of Firms:

Firms under monopolistic competition are free to join and leave the industry at any time they like to. The implication of this characteristic is that by entering freely into the market, the firms can produce close substitutes and increase the supply of commodities in the market.

Similarly, the firm commands such a meager amount of resources that in the event of losses, they may easily quit the market.

5. Price-makers:

In the monopolistic competitive market, each firm is a price-maker as it can determine the price of its own brand of the product.

6. Blend of Competition and Monopoly:

In this market, each firm has a monopoly power over its product as it would not lose all customers if it raises the price as its product is not a perfect substitute of other brands. At the same time, there is an element of competition because the consumers treat the different firms' products as close substitutes. Hence, if a firm raises the price of its brand, it would lose some customers to other brands