

# Market Structures

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## Market Structures

A **market structure** describes the characteristics of a market that determine how firms compete and what power they have over prices. The key dimensions are: the number of firms, the type of product, freedom to enter and exit, and the degree of price control.

### The Four Main Market Structures

**Advantages:** Can fund large-scale R&D with supernormal profits. A natural monopoly is more efficient than having duplicate infrastructure (e.g. two sets of water pipes). Economies of scale may result in lower prices than if many small firms competed.

**Disadvantages:** Higher prices and lower output than a competitive market. No incentive for efficiency — the lack of competition allows the firm to be complacent. Income is redistributed from consumers to shareholders. May produce at a point that is neither allocatively nor productively efficient.

#### Exam Tip

In Paper 02, a question on market structures will typically ask you to: describe characteristics, draw and interpret a diagram, and discuss advantages or disadvantages. Always connect characteristics to behaviour — for example, high barriers to entry in a monopoly explain why supernormal profit persists in the long run.