

Market

A market is a place where two parties can gather to facilitate the exchange of goods and services. The parties involved are usually buyers and sellers. The market may be physical like a retail outlet, where people meet face-to-face, or virtual like an online market, where there is no direct physical contact between buyers and sellers.

Market Economy

A market economy is an economic system in which economic decisions and the pricing of goods and services are guided by the interactions of a country's individual citizens and businesses. There may be some government intervention or central planning, but usually this term refers to an economy that is more market oriented in general.

Competition

In economics, competition is a condition where different economic firms^[Note 1] seek to obtain a share of a limited good by varying the elements of the marketing mix: price, product, promotion and place. In classical economic thought, competition causes commercial firms to develop new products, services and technologies, which would give consumers greater selection and better products. The greater selection typically causes lower prices for the products, compared to what the price would be if there was no competition (monopoly) or little competition (oligopoly).

Competition in economics happens when a market has a sufficient number of buyers and sellers so that prices remain low. When there are a large number of sellers, consumers have many options, which means companies have to compete to offer the best prices, value and service. Otherwise, consumers will go to the competition. When consumers enjoy many choices, businesses must remain on their toes and continue to offer the best prices. In this way, competition self-regulates the supply and demand of markets, keeping goods affordable for consumers. This is called the invisible hand theory.

Under a truly competitive market, no one company is able to exploit prices because consumers always have a choice to go somewhere else. There must be a healthy amount of competition in a market for this to work. Certain markets may not have as much competition, thus driving up prices.

Perfect Competition

Perfect competition happens when there are many sellers of nearly identical products. Because of so many companies selling similar products, there are many substitutes available for consumers. Prices are controlled by supply and demand and are generally low for consumers. One example of this is apple farming. If there are several apple farms in a geographic region, they will have to price their products competitively. When one farm prices their apples too high, consumers will go to another farm. There are abundant options, meaning substitutes are easy to come by. The lower priced apple farm will sell the most

product, and other farms must keep up by lowering their prices, too. This may require farms to lower operating costs or be run out of business

Monopolistic Competition

It is a market where there are many competitors, but each company sells a slightly different product. A few examples of businesses involved in monopolistic competition are restaurants, retail shops, salons and consumer electronics. Each of these groups of businesses are in competition with one another. For example, say there are two restaurants across the street from one another. One is Greek and the other is Mexican. They are each competing for customers, but their businesses aren't exactly perfect substitutes for one another. They offer two totally different types of cuisine, and perhaps even two different price points and dining experiences.

In monopolistic competition, there is a relatively low barrier of entry for businesses. This means there will be many companies entering the competition. They must each use marketing to differentiate their products and convince consumers of why their company's product should be chosen over all the others. For example, in a city like New York, where there are over 20,000 restaurants, competition is stiff. This is why restaurants must use marketing to differentiate themselves and compete. Because of the abundance of competition, demand is elastic. If a company significantly raises their prices, many consumers will likely go elsewhere. If your neighborhood pizza place raises its prices by 33 percent, you'll probably find someplace else to get pizza, unless you're extremely attached to that particular pie.

Economic Efficiency

A state in which it is impossible to produce additional output of a particular good or service without decreasing the output of other goods or services.

Economic Growth

An increase in the economy's productive capabilities due to an increase in the quantity or quality of economic resources and/or a change in technology.

Market Economy

An economy in which individuals and businesses freely decide where to employ economic resources, freely decide which goods and services to produce, and freely distribute the resulting output.