Who Sets the Price?

Compare how market structures shape competition and choice.

GE.3.3 "Describe different types of competitive structures in economic systems."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline the number of sellers in each market, circle a product difference or barrier to entry, and number the four competitive structures as you find them. Use your marks to compare how much choice buyers have.

Four Markets in One Town

1. At a Saturday market, ten growers offer the same grade of tomatoes. Buyers can compare prices and walk to another stall, so no single grower has much power to set the price. This resembles **perfect competition**, a model with many sellers, nearly identical products, and few barriers to entering the market. Real markets rarely match that model exactly. Across town, dozens of pizza shops compete, but each offers its own crust, service, or location. This is **monopolistic competition**: many sellers offer differentiated products. A shop can charge somewhat more if customers value its differences, but rival shops still limit its choices.

2. Now consider a city served by three cell phone carriers. Building networks costs a great deal, which makes entry difficult for new firms. Because only a few firms dominate, this market is an **oligopoly**. Each carrier watches the others: a price cut by one might trigger matching discounts, while a new coverage plan could pull customers away. These firms may also compete through advertising and service rather than price alone. An oligopoly does not mean firms always cooperate. They can compete fiercely, and laws may prohibit agreements to fix prices. The key feature is that each major seller must consider how its rivals might respond.

3. Finally, think of a town with just one provider of piped water. Laying a second set of water pipes through every street would be costly, so this service often operates as a **monopoly**, a market with one seller and high barriers to entry. Residents cannot simply choose another pipe network when prices rise. Government agencies often regulate water rates to protect customers, though rules differ by place. The number of sellers shapes competition, but it is not the whole story: product differences, entry barriers, and rival responses also matter. These features help explain why choice and pricing power vary across markets.

2 ANSWER WITH EVIDENCE

Use the passage

1. Why does the tomato market resemble perfect competition, and what limits one grower's power to raise prices?

2. How is competition among the pizza shops different from competition among the tomato growers?

3. What makes the cell phone market an oligopoly, and why does one carrier watch its rivals?

4. How does the piped-water monopoly affect customer choice, and what may limit the provider's pricing power?

3 YOUR TURN

Your own words

Invent two markets not named in the passage. In four sentences total, identify a different competitive structure for each market and explain the number of sellers, one product difference or barrier to entry, and its effect on prices or customer choice.

ANSWER KEY

Who Sets the Price?

PART 1 · READ AND MARK

Underline the number of sellers in each market, circle a product difference or barrier to entry, and number the four competitive structures as you find them. Use your marks to compare how much choice buyers have. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Why does the tomato market resemble perfect competition, and what limits one grower's power to raise prices?	**Many growers sell nearly identical tomatoes, and buyers can switch stalls. That makes it difficult for one grower to charge more.**
2	How is competition among the pizza shops different from competition among the tomato growers?	**Pizza shops offer different crusts, service, or locations, so customers may pay more for a preferred shop. Tomato growers offer nearly identical products.**
3	What makes the cell phone market an oligopoly, and why does one carrier watch its rivals?	**Three carriers serve the city, and costly networks make entry difficult. A rival's discount or new plan could draw customers away.**
4	How does the piped-water monopoly affect customer choice, and what may limit the provider's pricing power?	**Residents cannot switch to another pipe network. Government agencies often regulate water rates.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

In my town, many stalls sell the same grade of gravel, so this market is close to perfect competition. Buyers can switch stalls easily, which limits a seller's power to raise prices. Three movie theaters serve the town, making movie screenings an oligopoly with costly equipment that limits entry. Each theater watches rivals' ticket prices because a discount could draw away customers.

Accept well-supported descriptions of the structures, including markets that only approximate a model. In Part 3, each invented market should fit its named structure and connect a market feature to pricing or customer choice.