The theory of Market Structure takes a very important place in the theory of economy. The structure of a market provides us with different information such as general profit and utility maximising notions and conditions. Economics is an explanation of the ways of economic agencies' interactions through commodities, services, and mediums of exchange like money, production processes and other in order to make their standard of living higher. It is impossible for the economic agency to do this without knowing something about the market, on which it operates. It's also impossible to predict producers' or consumers' behaviour without knowing general profit and utility maximising conditions.

According to the theory market is divided into four most distinctive types. The pure competition and pure monopoly are the polar ones. Between them there are two: monopolistic competition (it is closer to perfect or pure competition) and oligopoly (closer to monopoly, but has more than one but not many large operating firms, lower monopolistic power and other distinctive features).

The most popular and wide spread markets are the markets with both the price making of a monopoly with a large number of suppliers and free- entry conditions of pure competition. Among them are for example record shops and clothing shops, food facilities like restaurants and fast-food enterprises, producers of non-alcoholic beverages like Coca-Cola or Pepsi and a great variety of others. Such markets combine the features of monopoly and competition; therefore they are called monopolistically competitive. This model is also very interesting and important tool for analysing such issues as product variety and product choice. It helps us understand whether the market system leads to the production of the "right" assortment of goods and services as it is too expensive to produce all conceivable commodities and there is always a problem of choice.

I would like to describe monopolistic competition, because I would like to talk about telephone service industry. We live in a society were the five elements of pure competition are not available to us, then we are clearly operating in a state other than pure competition. Instead we operate under a different model of competition known as monopolistic competition. Any time the elements of pure competition are not met the existing model is monopolistic competition.. The fundamental difference between a pure competitor and a monopolistic competitor is that the latter refrains from selling identical products. By employing product differentiation, the monopolistic competitor is trying to establish a comparison between its product and another competitors product. Product differentiation is when manufacturers make design changes to basically identical products. Instead of competing based upon price, we are competing based upon features. This is known as non price competition. This non price competition is rampant throughout our economy. In our telephone service industry we can meet both price and non-price competition. Non-price competition is wide-spread among the firms, which provide us with the local calls services and price competition is among very few private ones that try to provide us this abroad calls services with lower prices than the government offers.

There are several characteristic of the monopolistic competition:

1. **Sellers are price makers.** The reason for this is that unlike in perfect competition where the product is identical. Even if some firm has a monopolistic right on its trade mark and other firms are not allowed to produce the identical commodity, they have the opportunity to produce similar, but slightly different product and compete with it on the market. The greater is the difference of the firm's product from other one's (can be based even on location), the greater is the monopolistic power of that firm and the

less elastic is the demand curve for its output. Product differentiation makes this model different from pure competition model.

Economic rivalry takes the form of non-price competition:

1. Product differentiation may be physical (qualitative).

2. Services and conditions accompanying the sale of the product are important aspects of product differentiation.

3. Location is another type of differentiation.

4. Brand names, advertising and packaging lead to perceived differences.

5. Product differentiation allows producers to have some control over the prices of their products.

2. **Sellers do not behave strategically**. As there is a large (like in perfect competition) number of small firms, we assume, that each of them does not have a noticeable effect on the price decision of other producers, while changing the price for its output. Thus, firms do not take into consideration the expectation of a reaction of their competitors to their price and output decision. Buyers & sellers are independently acting.
3. **All participants have perfect information.**
4. **No entry barriers on the market.** Neither technological nor legal barriers to entry exist. This feature is similar to the perfect competition market.

There are 2 types of monopolistic competition:

Oligopoly - a few large sellers dominate and have the ability to affect prices in the industry. Because of the fact that in an oligopoly there are very few firms, when ever one firm does something, the others follow suit. Since all the firms have considerable power and influence, firms tend to act together. There are times when the interdependent behavior of the firms results in a formal agreement to set prices; this is termed a "collusion". Price-fixing, a type of collusion, is the action taken by an oligopoly to charge the same or similar prices for a product. The firms must also agree to divide the market so that each is guaranteed to sell a certain amount. Yet collusion is against the law because it restrains trade. Price wars are also common in oligopolies. When one firm lowers prices, it leads to a series of price cuts by all producers that may lead to unusually low prices in the industry. Raising prices is also risky unless the firm knows that rivals will follow suit. Otherwise, the higher priced firm will lose out on sales. An example might be Coca Cola and Pepsi which dominate the soft drink market. In our telephone service industry there are also several oligopolies, that try to offer us better equipment and service and the price depends on the quality of latter.

Pure Monopoly is a situation in which there is only one seller of a specific product that has no substitutes. Of course, everything in the world can be substituted especially nowadays. Therefore, discussing monopolies we refer to near monopolies. There are four types of near monopolies.

- Natural Monopoly. This is where society would be best served by the existence of the monopoly. Also called a franchise, it is a market situation where costs are minimized by having a single firm produce the product. Oftentimes, the government gives a company the exclusive right to do business in a certain area without competition. By accepting such a privilege, the companies also are subject to a certain amount of government regulation. Natural monopolies also bring about lower costs. If a firm grew larger and larger, its growth would result in the lowering of its costs. This trend is called economy of scale. Often these natural monopolies are accepted because it would be too great an inconvenience to have competition. Imagine ripping up the streets for new natural gas and lines.

- Geographic Monopoly - In this case, there are times when a business has a monopoly because of its location. When there is low demand for a certain type of firm, it often reflects in the amount of stores or business located in an area. Yet a geographic monopoly is not free from competition. If a business begins to make a great deal of money, competitors may come along in order to "share in the wealth". Also too, if a business keeps its prices too high, another business of the same type may come along with lower prices in order to elicit competition.
- Technological monopoly - These monopolies are really special rights given to those who invent a new product or create some type of work. By provision of the Constitution, the United States government is allowed to grant patents to inventors guaranteeing them the right to manufacture, use, or sell any new improvement they have made. Inventions are covered for 17 years and designs can be patented for shorter periods. Art and literary works are protected in much the same way through a copyright. Microsoft's control of the Windows operating system is such an example.
- Government Monopoly - a business the government owns and operates. Government monopolies are found at all levels and in most cases, involve products people need that private industry may not adequately provide like the post office.

I can't exactly determine what type of pure monopoly our trunk-line service refers to. We can say, that it is technological, but I still consider it to be more government, because other firms really have no right to provide our people with the service at lower prices. But I don't think, that it will last long. Of course, there cannot be pure competition among them like among Internet providers, but still we may expect oligopoly and like among providers of local calls services we may expect very soon pure competition.

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