

**H2 Economics Essay Practice – Essay Model**

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Topic: Market Structure

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*Discuss whether this model of market structure (oligopoly) is the most appropriate to explain the behavior of firms in Singapore. [15]*

Firms' behaviours can largely be explained by the market structures they exist in as the number of players in the market and the kind of goods would determine the behaviours of the firms. In Singapore, the firms that dominate the economy are largely service industries as well as global firms that are exporting products overseas. Otherwise, the small size of Singapore markets allows just a few firms to dominate them and satisfy the demand of the entire market. These firms are large players in their markets, interdependent on their rivals' actions and they create highly differentiated products, therefore, oligopoly market structure can be the most appropriate model for explaining their behaviors.

Oligopolistic markets share the features of non-price competitions, aggressive branding to differentiate their goods, with firms being mutually interdependent, which results in their need to monitor each others' actions and devising responses. There are also significant barriers to entry, possibly driven by economies of scale. As the pure forms of market structures such as perfect competition and monopoly doesn't fit into the picture for Singapore firms, oligopoly's features would better describe the behaviours of firms in Singapore.

Take the example of the market for retro Straits-styled Coffeeshop cafes; the market is dominated by Toastbox and Ya Kun, selling toast, coffee and tea alongside a variety of Singaporean snacks and cuisine. The products are differentiated because their meals are tweaked to match their own unique styles and there is also a host of other cafes selling similar but differentiated goods of varying sizes. The market is largely a mix of big and small firms competing with a certain barrier to entry in terms of the skills involved in making those meals and also the cost of branding. There is a hint of price leadership in the market, with prices of the drinks set at about the same and with more or less identical set meals involving coffee and toast prices at the same level. The smaller cafes usually take their cues for pricing from the bigger chain cafes mentioned.

In other markets such as restaurants, cleaning services companies, domestic retail banking, supermarkets and telecommunications, non-price competitions are easy to spot from the differentiated services they offer; often the fact that a new service or promotion becomes widespread after it is first started by a dominant player in the market shows that the firms are interdependent. Because of the small market size, most of these markets are dominated by just a few players. In banking, we only have OCBC, DBS and UOB while the telecommunications industry also features 2 giants, Singtel, Starhub and M1.

Of course, there are exceptions to the market structure of oligopoly in Singapore. Many small firms operating in niche areas of small neighbourhoods actually behave in ways modeled by Monopolistic competition market structure. In markets for hawker fare in hawker centers, for basic healthcare service from General Practitioners and neighbourhood convenience stores, firms that are small and provides slightly differentiated goods and services dominates. Each of them has limited pricing power as a result of the fact that there are many of them in the same market. The monopolistic competition model explains the myriad of different small shops and stalls in the domestic economy.

However, oligopoly model of firms behaviors is still the most appropriate to explain the behaviours of firms in Singapore as these firms dominate the major sectors of the economy. As a result of the small market of Singapore, many of the former monopoly markets deregulated have become oligopolistic in nature as competition is injected into the market through the release of more operating licenses. Examples include telecommunications industry and power generation. Finally, even the firms which might be monopoly in the domestic sector, like Singapore Press Holdings, international competition makes them behave like oligopoly firms. The presence of international publication means that SPH constantly engage in non-price competition, improving their publications and paper materials while charging the same price.

Therefore, even with the presence of much firms engaged in monopolistic competition in Singapore's economy, oligopoly is still the model that is most appropriate in describing the behaviours of firms in Singapore.