any process of manufacture which has been taken under the control of large combinations of capital will presently 

industries of the country; and no one can fail to observe that any man who tries to set himself up in competition with 

that the lines of endeavor have more and more narrowed and stiffened; no man who knows anything about the 

finding it harder to get into the field, more and more impossible to compete with the big fellow. Why? Because the 

American industry is not free, as it once was free; American enterprise is not free; the man with only a little capital is 

In the speech, he attacked the American oligopolies of the early 1900s.
A COMPETITION AND MONOPOLIES

In the blank at the left, write the letter of the choice that best completes the statement or answers the question.

USING KEY TERMS

RECALLING FACTS AND IDEAS

12. deregulation

7. market structure
cartel
monopoly

fewer product offerings.
c.

c.

Which piece of legislation made it illegal for a person to sit on the board of directors of a competitor?

19.

Which piece of legislation made it illegal to charge different buyers different prices?

Sequencing and Categorizing Information

17. Predicting Consequences

16. Making Comparisons

CRITICAL THINKING QUESTIONS

Sherman Antitrust Act (1890) Outlawed agreements and conspiracies that restrain interstate

American trade policies have included

Juan Dreicer

MULTIMEDIA MATERIAL

You and your students can visit tx.ett.glencoe.com—the Web site companion to Economics Today and Tomorrow. This innovative integration of electronic and print media offers your students a wealth of opportunities. The student text directs students to the Web site for the following options:

• Chapter Overviews
• Self-Check Quizzes

Answers are provided for you in the Web Activity Lesson Plan. Additional Web resources and Interactive Puzzles are also available.

Use the Glencoe Web site for additional resources. All essential content is covered in the Student Edition.

Additional Resources

Reading for the Student


Multimedia Material

Economics USA: Monopoly/Oligopolies. The Annenberg/CPB Collection. Color video, 60 mins. Discusses the nature of these two theoretical models of competition.
# Reading Objectives

### Section 1: Perfect Competition
- What are the five conditions of perfect competition?
- Why is agriculture often considered an example of perfect competition?
- How does perfect competition benefit society?

### Section 2: Monopoly, Oligopoly, Monopolistic Competition
- What are four characteristics of a pure monopoly?
- What characterizes an oligopoly?
- What are five characteristics of monopolistic competition?

### Section 3: Government Policies Toward Competition
- What is the difference between interlocking directorates and mergers?
- What is the purpose of federal regulatory agencies?
- How has some regulation hurt consumers?

# Reproducible Resources

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# Technology/Multimedia Resources

- Daily Focus Transparency 20
- Economic Concepts Transparency 9
- Vocabulary PuzzleMaker CD-ROM
- Interactive Tutor Self-Assessment Software
- MindJogger Videoquiz
- NBR’s Economics & You*
- Presentation Plus!
- ExamView® Pro Testmaker

*Also available in Spanish
ACTIVITY
From the Classroom of

Wendy S. Field
SCT BOCES Technical-Occupational Center
Elmira, New York

Medical Center

Have students develop a private medical business. Their outline should include a marketing plan that includes a competitor analysis; a financing plan that explains the costs of running the business; a staffing plan that lists needs versus costs; and a supplier plan that lists the medical supplies needed as well as general items such as business cards and filing cabinets.

Students must then research the aspects of government involvement in their medical business. Zoning regulations and environmental protections must be researched. In addition, students can use the Internet to find what local, state, and federal OSHA regulations must be met. Have students share their plans in an oral report. **ECON:** 2A-B 2D, 3A-B, 4A-B, 5A-B, 9A, 15A-B, 23A, 23C, 26G, 24D, 27A

National Council on Economic Education

The Economics America AND Economics International Programs

Voluntary Standards Emphasized in Chapter 9

**Content Standard 9** Students will understand that competition among sellers lowers costs and prices, and encourages producers to produce more of what consumers are willing and able to buy.

**Content Standard 16** Students will understand that there is an economic role for government to play in a market economy whenever the benefits of a government policy outweigh its costs.

Resources Available from NCEE

- Capstone: The Nation’s High School Economics Course
- Focus: High School Economics
- MCG—Economics and Entrepreneurship
- Economics in Transition: Command to Market
- From Plan to Market

To order these materials, or to contact your State Council on Economic Education about workshops and programs, call 1-800-338-1192 or visit the NCEE Web site at [http://www.nationalcouncil.org](http://www.nationalcouncil.org)
Why It’s Important
How do airlines determine airfares? Why do farmers’ markets often charge the same price for their produce during the summer? This chapter will explain how competition—or the lack of it—determines the prices you pay.

To learn more about competition, view the Economics & You Chapter 8 video lesson:
Competition and Monopolies

Chapter Overview
Chapter 9 explains or describes the influence of competition on supply and demand and price, perfect competition and pure monopoly, oligopoly and monopolistic competition, and government regulation of business.

GLENCOE TECHNOLOGY
Use MindJogger Videoquiz to preview Chapter 9 content.

ECONOMICS Online
Introduce students to chapter content and key terms by having them access Chapter 9—Chapter Overviews at tx.ett.glencoe.com

CHAPTER LAUNCH ACTIVITY
Tell students to imagine they want to buy a CD player. Ask them what factors they might consider in making such a purchase. Note their responses on the board. Next, underscore responses such as price, quality, and special features and point out that students assume they will have a choice of these items. Continue by mentioning that there is a choice in the market because companies compete for business. Have students consider what purchasing a CD player would be like if there were no competition. Conclude by informing students that they will learn about competition—and the lack of competition—in the market in this chapter.  

ECON: 4A-B, 9C, 10A, 23A
Competition—one of the basic characteristics of our market economic system—is advantageous to consumers for several reasons. First, it provides us with choices. As noted in the Cover Story above, people traveling from Boston to New York now have a choice of going by plane or train. Competition is advantageous for another reason as well. Having many competing suppliers of a product leads to a surplus and, thus, lower prices. As you can imagine, for this reason each supplier would like to have as little competition as possible.

Market Structure

In Chapter 8 you learned that businesses are set up based on the number of owners—sole proprietorship, partnership, corporation. In this chapter you'll learn that businesses are also categorized by market structure—or by the amount of competition they face. Figure 9.1 on page 234 shows the four basic market structures in

Competition and Monopolies

BELLRINGER
Motivational Activity

Project Daily Focus Transparency 20 and have students answer the questions. Available as blackline master.

Daily Focus Transparency 20

PERFECT COMPETITION

1. Why do you think all of the apples have similar prices?
2. The land and equipment pictured on the left act as barriers that might make farming less than perfectly competitive. Why?

READER’S GUIDE

Terms to Know
• market structure
• perfect competition

Reading Objectives
1. What are the five conditions of perfect competition?
2. Why is agriculture often considered an example of perfect competition?
3. How does perfect competition benefit society?

Answers to the Reading Objectives questions are on page 237.

Preteaching Vocabulary
Ask students to speculate on the meaning of the terms market structure and perfect competition. Then have students compare their definitions with those in the Glossary.

ECON: 24A

Vocabulary PuzzleMaker

Student Edition TEKS

**2 Teach**

**Guided Practice**

**L1 Classifying Information**
Review the conditions of perfect competition with students. Then on the board, construct a table with the following column headings: “Market Size,” “Product,” “Market Entry,” “Information,” “Control Over Price.” Call on volunteers to come to the board and, in the appropriate column, note the way these five conditions are reflected in perfect competition. \textbf{ECON: 4A, 9C, 23A, 23F}

**Daily Lecture Notes 9-1**

**DAILY LECTURE NOTES Lesson 9-1**

At one time, the Soviet Union believed that powerful computers might one day solve the allocation problems of a command economy. Ironically, today many people believe that the Internet offers a market structure that remarkably offers the benefits of perfect competition.

**Question:** What are the conditions of perfect competition?

**Figure 9.1**

**Comparing Market Structures** Markets that are either perfectly competitive or pure monopolies are rare. Most industries in the United States fit one of the other two forms.

**Conditions of Perfect Competition**

All businesses must engage in some form of competition as long as other businesses produce similar goods or services. When a market includes so many sellers of a particular good or service that each seller accounts for a small part of the total market, a special situation exists. Economists term it \textbf{perfect competition.} For perfect competition to take place, five conditions must be met:

1. **A Large Market** Numerous buyers and sellers must exist for the product.
2. **A Similar Product** The good or service being sold must be nearly identical. See Figure 9.2.
3. **Easy Entry and Exit** Sellers already in the market cannot prevent competition, or
4. **No Control Over Price** When the conditions of perfect condition are working, what controls the price of goods and services?
5. **Market Price** In a perfectly competitive market, what is the market price?

The American economy: perfect competition, monopolistic competition, oligopoly, and monopoly. In this section you’ll learn about the ideal market structure of perfect competition.

**perfect competition:** market situation in which there are numerous buyers and sellers, and no single buyer or seller can affect price.

**Meeting Special Needs**

**Learning Strategy** Students with learning challenges often have difficulty applying learning strategies in different situations. To help students use the “Survey, Question, Read, Recite, and Review” strategy, have them construct a chart with the following questions as column headings: “Did I skim for the title, headings, and main ideas?” “Did I ask questions?” “Did I answer my questions?” Work through the section with students. As they move through the procedures, have them place a check mark in the appropriate column on their charts. \textbf{ECON: 23A}

Refer to \textit{Inclusion for the Social Studies Classroom Strategies and Activities} for students with different learning styles.
entrance into the market. In addition, the initial costs of investment are small, and the good or service is easy to learn to produce.

(4) Easily Obtainable Information  Information about prices, quality, and sources of supply is easy for both buyers and sellers to obtain.

(5) Independence  The possibility of sellers or buyers working together to control the price is almost nonexistent.

No Control Over Price  When the above five conditions are met, the workings of supply and demand control the price, not a single seller or buyer. On the supply side, perfect competition requires a large number of suppliers of a similar product. On the demand side, perfect competition requires a large number of informed buyers who know exactly what the market price is for the good or service.

In a perfectly competitive market, the market price is the equilibrium price. Total supply and total demand are allowed to interact to reach the equilibrium price—the only price at which quantity demanded equals quantity supplied. In a world of perfect competition, each individual seller would accept that price. Because so many buyers and sellers exist, one person charging a higher or lower price would not affect the market price.

Information Is Key  True perfect competition is rarely seen in the real world. Nonetheless, fierce competition does exist in many sectors of the economy. While information about prices, quality, and sources of supply might have been hard and costly to obtain in the past, that is not true today. Virtually anyone with access to the Internet can find out the lowest prices of just about anything.

Perfect Competition
Having a similar product and easy entry into the market—such as greenhouses do—are two conditions of perfect competition. What three other conditions must be met for perfect competition?

Answer: a large market, easily obtainable information about prices and products, little possibility of sellers and buyers working together to control price

Cooperative Learning
Organize students into several small groups, and tell groups that they have been asked to prepare educational materials to teach the concept of perfect competition. Direct groups to create wall charts, posters, or some other form of pictorial display on perfect competition, using agriculture as an example. Call on groups to use their materials to teach the concept to the rest of the class.

ECON: 4A-B, 9C, 10A, 23A, 23C, 23F, 24C-D
Agriculture as an Example

Few perfectly competitive industries exist in the United States. The one that perhaps comes closest is the agricultural market. It is often used as an example of perfect competition because individual farmers have almost no control over the market price of their goods. Figure 9.3 applies the five conditions of perfect competition to the wheat market.

No Control Over Wheat Prices    No single farmer has any great influence on price. The interaction of supply and demand determines the price of wheat. The supply is the total supply of all the wheat that farmers produce. The demand is the total demand for all uses of wheat. The equilibrium price is the price where supply and demand intersect.

Individual wheat farmers have to accept the market price. If the price is $3 per bushel, that is the price every farmer receives. Farmers who attempt to raise their price above $3 will find that no one will buy their wheat. Farmers will not be willing to sell their wheat for less than $3 per bushel.

Unique Situation    The demand for wheat and other agricultural products is somewhat different from the demand for many other products. People’s demand for wheat is, for the most part, inelastic. People can use wheat in only so many ways, and people can eat only so many wheat products. So even if the price of wheat were to increase or drop dramatically, quantity demanded would not change significantly. The supply side of most agricultural markets is also unique. It is highly dependent on conditions over which farmers have little or no control, as shown in Figure 9.4.

Figure 9.3

The Wheat Market as a Perfect Competitor

1. A Large Market    Thousands of wheat farmers grow wheat, and thousands of wholesalers buy wheat.
2. A Similar Product    All wheat is fairly similar.
3. Easy Entry and Exit    The costs of renting farmland are relatively low, and farming methods can be learned.
4. Easily Obtainable Information    Information about wheat prices is fairly easy to obtain. Indeed, it can be obtained on the Internet in a few seconds.
5. Independence    The possibility of thousands of wheat farmers banding together to control the price is very small.

Visual Learning Activity

Graphic Organizer    Have students create a graphic organizer titled “The Wheat Market—Perfect Competition.” Direct students to draw a web similar to the one here. The web should have “The Wheat Market as Perfect Competitor” written in the central oval. Students should complete the web by entering the conditions of perfect competition in the wheat market in the outer ovals.
Benefits to Society

The intense competition in a perfectly competitive industry forces the price down to one that just covers the costs of production plus a small profit. This price is beneficial because it means that consumers are paying only for what has been put in to make those products—the opportunity cost of the use of land, labor, capital, and entrepreneurship. The price that consumers pay for such products is a correct signal about the value of those products in society.

Perfectly competitive industries yield economic efficiency. All inputs are used in the most advantageous way possible, and society therefore enjoys an efficient allocation of productive resources.

Agricultural Disasters Affect Supply

Variations in weather, a crop disease, or a crop-destroying insect can wipe out entire harvests. This means that farmers may have a good harvest one year and a poor harvest the next. As a result, there are widely fluctuating supplies of goods in the agricultural market.

Understanding Key Terms

1. Define market structure, perfect competition.

Reviewing Objectives

2. Graphic Organizer Use a diagram like the one below to explain the five conditions of perfect competition.

3. Why is agriculture often considered an example of perfect competition?

4. How does perfect competition benefit society?

Applying Economic Concepts

5. Perfect Competition Explain how a local fast-food restaurant manager faces almost perfect competition in the demand for high school employee labor.

Critical Thinking Activity

6. Summarizing Information In this section, you learned that the Internet has made the United States economy more competitive. Use a search engine to find information about the market price of your favorite automobile.

SECTION 1 Assessment Answers

1. All definitions can be found in the Glossary.

2. Five conditions: a large market, a similar product, easy entry and exit into the market, easily obtainable information, independence

3. Agriculture meets the conditions of perfect competition: many farmers and many buyers of farm products; farm products fairly similar; costs of renting farmland relatively low, and farming methods can be learned; information about farm prices readily available; possibility of thousands of farmers banding together to control price very small.

4. Perfect competition encourages economic efficiency by forcing price down to where it covers costs plus a small profit. This means that consumers are paying only what has been put in to make those products.

5. The high school student labor pool is large; most students have similar qualifications; entry into the high school labor pool is easy; information about students’ qualifications and wage requirements is readily available; it is unlikely that students would band together to set wages.

6. Have students discuss the prices they found.
**Critical Thinking Skills**

**Drawing Inferences and Conclusions**

Write the following sentence on the board, and tell students that it is a headline that might have appeared in the sports pages of a newspaper: “Another Year of Futility—Hawks Fail to Make the Playoffs Again!”

Ask students what information about the team they can draw from the headline. Most students will infer that it has been some time since the Hawks had a successful season. Next, ask students to suggest how the writer feels about the situation. Students may suggest that the writer seems upset or frustrated. Then point out that in this exercise, students have been drawing inferences and conclusions—a key skill of critical thinkers. **ECON: 23A, 23E**

**Reinforcing Economic Skills 16**

**GLENCOE TECHNOLOGY**

Glencoe Skillbuilder Interactive Workbook, Level 2

This interactive CD-ROM reinforces student mastery of essential social studies skills.

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**Answers to Practicing the Skill**

1. A landmark bill, passed in 1996, gave farmers the freedom to plant what they want, when they want. In 1999, the federal government will give $14.4 billion to farmers.
2. The author is probably not a farmer. The author does not want to bail out farmers in times of trouble.
3. Most students will conclude that it is not a perfectly competitive market, because government policy interferes with the forces of supply and demand in price setting.

**APPLICATION ACTIVITY** Students’ research should lead them to understand that the soft drink industry in the U.S. is oligopolistic among the several large soft drink manufacturers.
When Gillette Co. unveiled Mach3, the world’s first triple-blade razor, it took a bold gamble. . . . Mach3 cartridges were to sell for around $1.60 each. Skeptics predicted the personal-care giant would soon be forced to cut that price. But the price is holding and Mach3 has become the No. 1 blade and razor.

What’s the secret to pricing power? For starters, a commitment to innovation. Gillette spent nearly $1 billion on the development and initial marketing of Mach3.

Imagine spending $1 billion on the development and advertising of a razor blade—a common shaving tool. Would that much advertising be worth it? It would if customers paid whatever price you asked for the razors. As you read this section, you’ll learn that advertising plays a major role in two types of market structures.

Imperfect Competition

As mentioned in Section 1, perfect competition is an ideal type of market structure. Most industries in the United States, in

**Terms to Know**
- monopoly
- barriers to entry
- economies of scale
- patent
- copyright
- oligopoly
- product differentiation
- cartel
- monopolistic competition

**Reading Objectives**
1. What are four characteristics of a pure monopoly?
2. What characterizes an oligopoly?
3. What are five characteristics of monopolistic competition?

**READER’S GUIDE**

**SECTION 2 RESOURCE MANAGER**

- Reproducible Masters
  - Reproducible Lesson Plan 9–2
  - Reading Essentials and Study Guide 9–2
  - Guided Reading Activity 9–2
  - Section Quiz 9–2
  - Daily Focus Activity 21
  - Daily Lecture Notes 9–2

- Multimedia
  - Daily Focus Transparency 21
  - Vocabulary PuzzleMaker CD-ROM
  - Interactive Tutor Self-Assessment Software
  - ExamView® Pro Testmaker
  - MindJogger Videoquiz
  - NBR’s *Economics & You*
  - Presentation Plus!

**Student Edition TEKS**


**BELLRINGER**

Motivational Activity

- Project Daily Focus Transparency 21 and have students answer the questions.
- Available as blackline master.

**FOCUS ACTIVITIES**

- Monopolies, Oligopolies, and Monopolistic Competition

- 1. Why does the government pass laws that reduce competition, as in the case of the U.S. Postal Service?
- 2. Why would the need for high-cost capital keep people from getting into a market such as the aluminum-producing industry?

**Answers to the Reading Objectives questions are on page 246.**

**Preteaching Vocabulary**

- Vocabulary PuzzleMaker
2 Teach

Guided Practice

L1 Classifying Information On the board, construct a table with the following vertical column headings: “Number of Sellers,” “Product,” “Entry Into Market,” “Control Over Price.” Use “Monopoly,” “Oligopoly,” and “Monopolistic Competition” as horizontal column headings. Have students compare these three types of imperfect competition by completing the table. ECON: 9C, 23A, 23F

Daily Lecture Notes 9–2

Daily Lecture Notes Lesson 9.2

DAILY LECTURE NOTES

LECTURE LAUNCHER

In the early 1800s, speculators would cut the telegraph wires connecting Boston to New York. When steamships came into Boston Harbor with information about events in Europe’s market, the telegraphs could not be sent. The speculators would arrange to have a horse and railboard, deliver the news to them first. What are some other ways that a business might try to express deliver the news to them first? Why is it important to communicate information quickly?

ECONOMY FRAMEWORK

ECONOMY FRAMEWORK

ECONOMY FRAMEWORK

ECONOMY FRAMEWORK

FORUM!

FORUM!

Forums

Why do you think that U.S. industries mainly have imperfect competition? Discuss not only the difficulty of perfect competition and how capitalistic economics create conditions for imperfect competition.

Figure 9.5

Local Electric Companies

Because some local electric utilities are the sole providers, and the consumer has no other option, they are monopolies.

monopoly: market situation in which a single supplier makes up an entire industry for a good or service with no close substitutes

barriers to entry: obstacles to competition that prevent others from entering a market

240 CHAPTER 9

Meeting Special Needs

Inefficient Readers Students often benefit from using a form of rapid reading, called scanning, to locate specific information. Model the scanning procedure using the text under the subheading “Barriers to Entry” on pages 240 and 241. Place your finger on the first line of text, and then move your finger down the middle of the column, noting the three major barriers to entry as you go. Then have students practice the procedure by scanning the material under the subheading “Types of Monopolies” on page 241. ECON: 23A

Refer to Inclusion for the Social Studies Classroom Strategies and Activities for students with different learning styles.
inefficiency of three or four competing water companies all trying to lay water mains along your street.

Another barrier to entry is the cost of getting started. Called “excessive money capital costs,” this barrier is found in industries such as cars and steel, in which initial investment is high because of the amount and cost of the equipment. See Figure 9.6.

Ownership of essential raw materials can also provide a barrier to entry. A good example is the diamond industry. The DeBeers Company of South Africa controls the marketing of nearly all the world’s diamonds.

**Types of Monopolies**  Pure monopolies can be separated into four categories depending on why the monopoly exists. As shown in Figure 9.7 on page 242, the four types of monopolies are natural, geographic, technological, and government.

In the past it was thought to be more efficient, or natural, to have just one company providing a public good or service. This belief led the government to grant exclusive rights to natural monopolies—providers of such things as utilities, bus service, and cable TV. The large size, or scale, of most natural monopolies seemed to give them economies of scale—by which they could produce the largest amount for the lowest cost. It is now being realized that advances in technology can make these industries more competitive, however. Government is making moves to deregulate and open them up for competition.

A grocery store in a remote Alaskan village is an example of a monopoly caused by geographic factors. Because the potential for profits is so small, other businesses choose not to enter, thus giving the sole provider a geographic monopoly. These types of monopolies are declining, however, as competition arises from mail-order and Internet catalogs and delivery services.

If you invent something, you are capable of having a technological monopoly over your invention. A government patent gives you the exclusive right to manufacture, rent, or sell your invention for a specified number of years—usually 20. Similarly, a United States copyright protects art, literature, song lyrics, and other creative works for the life of the author plus 70 years.

A government monopoly is similar to a natural monopoly, except the monopoly is held by the government itself. The construction and maintenance of roads and bridges, for example, are the responsibility of local, state, and national governments.

**Barriers to Entry**  Huge startup costs keep some businesses from entering certain industries.

---

**Cooperative Learning**

Organize students into several groups, and have groups select an oligopolistic industry. Have groups create a multimedia exhibit that illustrates how firms in their selected industries practice product differentiation. Inform groups that their exhibits might include collages of magazine and newspaper advertisements, videotapes of television advertisements, and audiotapes of radio advertisements. Encourage groups to display their exhibits around the classroom.

**ECON:** 9C, 23A, 23C, 24C-D

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**Guided Reading Activity 9–2**

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

**ECON:** 9C, 10A, 23A, 24C-D
Types of Monopolies

Monopolies exist for several reasons. Which type of monopoly, if any, do you think is justified? Explain your response.

A. Natural Monopoly
B. Technological Monopoly
C. Government Monopoly
D. Geographic Monopoly

Draw students’ attention to Part B in Figure 9.7. Remind students that technological monopolies are established by government patents. Then inform students that during the 1990s, the U.S. Patent and Trademarks Office issued an average of about 117,000 patents each year.

Answer: Answers may vary. Many students will suggest that because of economies of scale, some natural monopolies and government monopolies may be justified.

ECON: 9C, 15A-B

ASK: How is a monopoly different from an oligopoly? A monopoly exists when only one producer of a product or service exists. An oligopoly exists when only a few producers compete in a market.

Also available in VHS.

Free Enterprise Activity

Ask students to identify several businesses in their community that are monopolistic competitors. Then organize the class into groups, and assign each group one of these businesses. Have groups conduct research and interview company officers to discover the competitive strategies of their assigned companies. Have groups present their findings in the form of brief written reports. Encourage groups to illustrate their reports with appropriate visual materials. ECON: 4A, 9C, 23A, 23C, 24B-D
How Important Are Monopolies Today? Monopolies are far less important than they once were. As noted earlier, geographic monopolies have little effect because of potential competition from mail-order businesses and electronic commerce on the Internet. Natural monopolies are being broken up by technology and government deregulation.

Technological monopolies rarely last longer than the life of the patent—if even that long. Why? Competitors can make and patent slight variations in new products quickly. The microcomputer revolution in the early 1980s followed such a pattern. One company copied another’s product, making changes and adding features to obtain a patent of its own.

Oligopoly

Unlike a monopoly with just one supplier, an oligopoly is an industry dominated by several suppliers who exercise some control over price. For a market structure to be labeled an oligopoly, it must meet the following conditions:

(1) Domination by a Few Sellers Several large firms are responsible for 70 to 80 percent of the market.
(2) Barriers to Entry Capital costs are high, and it is difficult for new companies to enter major markets.
(3) Identical or Slightly Different Products The goods and services provided by oligopolists—such as airline travel, domestic automobiles, and kitchen appliances—are very similar.
(4) Nonprice Competition Advertising emphasizes minor differences and attempts to build customer loyalty.
(5) Interdependence Any change on the part of one firm will cause a reaction on the part of other firms in the oligopoly.

Figure 9.8 on page 244 shows a number of industries in which the four largest firms produce more than 80 percent of the total industry output. All of these industries are oligopolies. Oligopolies are not considered as harmful to consumers as monopolies. Consumers may pay more than if they were buying in a perfectly competitive market. Oligopolistic markets, however, tend to have generally stable prices. They also offer consumers a wider variety of products than would a perfectly competitive industry.

Reducing Postal Monopolies

The monopoly that national postal services have enjoyed is now being whittled away by technology. Overnight delivery companies such as Federal Express, Airborne Express, and United Parcel Service (UPS) offer faster delivery but at premium prices. And the widespread use of fax machines and electronic mail (E-mail) has virtually eliminated any remaining monopoly power that national postal services held.

Oligopoly: industry dominated by a few suppliers who exercise some control over price.

Economics Connection to...

Early Monopolies The European shipping companies that operated under royal charters in the 1500s and 1600s were among the earliest monopolies. Rulers gave these companies exclusive rights to trade in Asia and other regions.

L1 Creating Posters Have students work in small groups to create posters that illustrate the four types of monopolies. Display finished posters around the classroom.

L2 Applying Ideas Ask students to locate a real example of one of the four types of monopolies. Then have students write a case study comparing their selected example with an “ideal type” of monopoly. Call on volunteers to share their case studies with the class.

Relevant Issues in Economics

The HHI How do economists determine the level of competition in a market? They use a measure called the Herfindahl-Hirschman Index (HHI). The HHI is calculated by totaling data on the market shares of all companies in a market. The higher the HHI score, the less competitive the market. A review of the HHI shows that the least competitive industries in the United States include airlines, automobiles and trucks, tobacco, brewing, snack foods, and soft drinks.

ECON: 4A, 9C, 23A

Student Edition TEKS

Page 242: 9C, 23A, 23D
**Product Differentiation**  We mentioned earlier that oligopolists engage in *nonprice* competition. What does this mean? Let’s use automobiles as an example. Several large auto manufacturers have an oligopoly on the domestic car market. They all make cars, trucks, and sport utility vehicles. However, they spend millions, if not billions, of advertising dollars per year to differentiate their products in your mind—and to win your consumer dollars.

The price you pay for brand names is not just based on supply and demand. Rather, it is based on **product differentiation**—the real or perceived differences in the good or service that make it more valuable in consumers’ eyes.

**Interdependent Behavior**  With so few firms in an oligopoly, whatever one does, the others are sure to follow. When one airline cuts its airfares to gain market share, for example, the other major airlines lower theirs even more. Although this type of *price war* is initially good for consumers in the form of lower prices, it may force an airline out of business if prices drop too much. Fewer airlines lead to less competition, which raises prices in the long run.

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**Global Economy**

**OPEC**  Among the best-known cartels is the Organization of Petroleum Exporting Countries (OPEC). Formed in 1960, OPEC is an association of 11 oil producing and exporting countries—Algeria, Libya, Nigeria, Indonesia, Iran, Iraq, Kuwait, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

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**Extending the Content**

**Cartels**  Cartels usually are successful when they sell a product that has inelastic demand—oil, for example. However, the success of a cartel is not guaranteed. It is relatively easy for members to violate any one of the price, production, or distribution conditions agreed to by the cartel. For example, the Organization of Petroleum Exporting Countries (OPEC)—the oil cartel—has found it increasingly difficult to control world oil prices because a number of its members regularly exceed the agreed output levels.

---

**ASK:** How do oligopolists compete?  through nonprice competition, or *product differentiation*

Offer aspirin as an example of product differentiation. Point out that all aspirin tablets are made from the same ingredients. Often a drug company, through advertising, leads consumers to believe that its aspirin brings greater or faster pain relief than a competitor’s brand.  **ECON: 9C, 23A**
In contrast, if competing firms in an oligopoly secretly agree to raise prices or to divide the market, they are performing an illegal act called *collusion*. Heavy penalties, such as fines and even prison terms, are levied against companies found guilty of collusion in the United States.

**Cartels** An important form of collusion is the cartel. A *cartel* is an arrangement among groups of industrial businesses, often in different countries, to reduce international competition by controlling price, production, and distribution of goods. Such groups of industrial businesses are levied against companies found guilty of collusion in the United States.

**Monopolistic Competition**

The most common form of market structure in the United States is *monopolistic competition*, in which a large number of sellers offer similar but slightly different products. Obvious examples are brand-name items such as toothpaste, cosmetics, and designer clothes. To be a monopolistic competitor, five conditions must be met:

1. **Numerous Sellers** No single seller or small group dominates the market.
2. **Relatively Easy Entry** Entry into the market is easier than in a monopoly or oligopoly. One drawback is the high cost of advertising.
3. **Differentiated Products** Each supplier sells a slightly different product to attract customers.
4. **Nonprice Competition** Businesses compete by using product differentiation and advertising.
5. **Some Control Over Price** By building a loyal customer base through product differentiation, each firm has some control over the price it charges.

Many of the characteristics of monopolistic competition are the same as those of an oligopoly. The major difference is in the number of sellers of a product. As you recall, in an oligopoly a few companies dominate an industry, and control over price is interdependent. Monopolistic competition has many firms, no real independence, and some slight difference among products.

**Meeting Lesson Objectives**

Assign Section 2 Assessment as homework or an in-class activity.

Use Interactive Tutor Self-Assessment Software to review Section 2.

**L2 Analyzing Information**

Using the five characteristics of monopolistic competition, have students list examples of real products. Then have students share their findings with the class. **ECON:** 9C, 24D

**Critical Thinking Activity**

**Synthesizing Information** Point out that advertising employs a variety of methods to persuade consumers to buy products. These methods include humor, celebrity endorsements, and appeals to fear. You might provide the following examples: Humor—a child running from room to room while unraveling a toilet roll to advertise a new “extra strength” toilet tissue. Celebrity Endorsement—a baseball star stating that a particular make of car is the “only one” for him. Appeals to Fear—pictures of young children playing while a voice-over says, “Who’ll care for them when you’re gone?” to sell life insurance. Have students create their own examples of these three kinds of advertising persuasion. **ECON:** 4A-B, 23A, 24D

**Monopolistic competition:** market situation in which a large number of sellers offer similar but slightly different products and in which each has some control over price.

**Cartel:** arrangement among groups of industrial businesses to reduce international competition by controlling the price, production, and distribution of goods.
Reteach

Have students write five questions about the section. Then ask students to exchange questions and write answers to the questions they received. **ECON: 9C, 23A**

Understanding Key Terms

1. **Define** monopoly, barriers to entry, economies of scale, patent, copyright, oligopoly, product differentiation, cartel, monopolistic competition.

Reviewing Objectives

2. What are the four characteristics of a pure monopoly?
3. What characteristics of an oligopoly allow it to have a limited control over price?
4. **Graphic Organizer** Use a chart like the one in the next column to compare a monopolistic competitor to an oligopoly in regard to these categories: number of sellers, difficulty of market entry, product differentiation, nonprice competition, and amount of control over price.

**Applying Economic Concepts**

5. **Product Differentiation** Give three examples of products you have bought recently based on advertising, not price. How does your consumer behavior justify product differentiation?

6. **Synthesizing Information** Develop a print or video advertisement using yourself as the hardworking product. Use product differentiation to explain why an employee should “purchase” you.

**4 Close**

Ask students which of the three market structures discussed in this section they think is the most beneficial for consumers. Have them explain their answers. **ECON: 9C, 23A, 23D**

**Advertising** Competitive advertising is even more important in monopolistic competition than it is in oligopolies. As shown in **Figure 9.9**, advertising attempts to persuade consumers that the product being advertised is different from, and superior to, any other. When successful, advertising enables companies to charge more for their products. That's why companies like Nike, The Gap, and Procter & Gamble pour millions of dollars into their advertising budgets every year.

**Figure 9.9**

**Advertising** Ads lead to product differentiation and competition for consumer dollars. Businesses also compete for shelf space—space on store shelves for displaying their products and attracting buyers.

**SECTION 2 Assessment Answers**

1. All definitions can be found in the Glossary.
2. single seller, no substitutes, no entry into market, control over price
3. domination by a few sellers, substantial barriers to entry into market, similar products, product differentiation, interdependent behavior
4. See next column.
5. Answers will vary.
6. Advertisements will vary. Encourage students to share their advertisements with the class.
Celebrity Can Really Be a Gas

Celebrity evidently sells well. Sales at the San Francisco flagship already total 80% of first-year projected revenues of $5 million, says the partnership. The gas isn’t any better than rivals’, admits Andretti. But he boasts that the service is. The Indy 500 champ regularly visits his namesake station to make sure. He sometimes even lends a hand to surprised motorists. “I’ll pump your gas and clean your windshield, no problem,” he says. Now, if he would only drive folks home in the evening rush . . .

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Think About It

1. Are goods or services more important at Andretti’s mega-station?
2. How does Andretti differentiate his products from others?

Answers to Think About It

1. services; Andretti freely admits that the product he sells—gasoline—is no better than that of his rivals.
2. by using his celebrity as a former racing car champion
CHAPTER 9
SECTION 3, Pages 248–253

1 Focus

Overview
Section 3 explains the agencies and laws the federal government established to protect competition in the American economy.

BELLRINGER
Motivational Activity

Project Daily Focus Transparency 22 and have students answer the questions. This activity is also available as a blackline master.

Daily Focus Transparency 22

FOCUS ACTIVITIES

Government Regulation of the Market

COMPLETE REGULATION

“command economy”

REGULATION

“mixed economy”

NO REGULATION

“laissez faire”

1. Where on the continuum do command economies fall?
2. What type of regulation do you think a modified free enterprise economy has?

Government Regulation Continuum

Government Regulation

Emphasis on Advantages of Free Market

Emphasis on Disadvantages of Free Market

Deregulation

ECON: 24A

Reproducible Masters

Reproducible Lesson Plan 9–3
Reading Essentials and Study Guide 9–3
Guided Reading Activity 9–3
Section Quiz 9–3
Daily Focus Activity 22
Daily Lecture Notes 9–3

Multimedia

Daily Focus Transparency 22
Vocabulary PuzzleMaker CD-ROM
Interactive Tutor Self-Assessment Software
ExamView® Pro Testmaker
MindJogger Videoquiz
NBR’s Economics & You
Presentation Plus!

READER’S GUIDE

Terms to Know
• interlocking directorate
• antitrust legislation
• merger
• conglomerate
• deregulation

Reading Objectives
1. What is the difference between interlocking directorates and mergers?
2. What is the purpose of federal regulatory agencies?
3. How has some regulation hurt consumers?

READER’S GUIDE

Answers to the Reading Objectives questions are on page 253.

Preteaching Vocabulary
Have students find the definitions of the Terms to Know in the Glossary. Then ask students to write a brief paragraph explaining how horizontal, vertical, and conglomerate mergers differ. ECON: 24A

Vocabulary PuzzleMaker

government policies toward competition

Cover Story

BERGEN RECORD, APRIL 23, 1999

The Federal Trade Commission (FTC) reviews mergers to ensure that they do not substantially lessen competition. The agency certainly was busy in 1998. In that year, the number of announced mergers involving American companies exceeded 7,750. A survey conducted in 1999 suggests that the FTC’s workload will not dwindle in the near future. Of the companies polled in the survey, more than one third said that they intended to acquire other companies within the year.

Historically, one of the goals of government in the United States has been to encourage competition in the economy. In this section, you’ll learn about the federal laws and regulatory agencies—including the Federal Trade Commission mentioned above—that attempt to force monopolies to act more competitively.

Antitrust Legislation

The industrial expansion after the Civil War fueled the rise of big businesses. John D. Rockefeller’s Standard Oil Company was the most notorious for driving competitors out of business and pressuring customers not to deal with rival oil companies. He also placed members of Standard Oil’s board of directors onto

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the board of a competing corporation. Because the same group of people, in effect, controlled both companies, it was less tempting for them to compete with one another. This practice of creating **interlocking directorates** was perfected by Rockefeller.

**Sherman Antitrust Act** Public pressure against Rockefeller’s monopoly, or trust, over the oil business led Congress to pass the Sherman Antitrust Act in 1890. The law sought to protect trade and commerce against unlawful restraint and monopoly. The Sherman Act was important **antitrust legislation**, or laws to prevent new monopolies or trusts from forming and to break up those that already exist.

**Clayton Act** Because the language in the Sherman Act was so vague, a new law was passed in 1914 to sharpen its antitrust provisions. The Clayton Act prohibited or limited a number of very specific business practices that lessened competition substantially. The Clayton Act, however, does not state what the term **substantially** means. As a result, it is up to the federal government to make a subjective decision as to whether the merging of two corporations would substantially lessen competition. **Figure 9.10** on page 250 details the Clayton Act and other antitrust legislation.

**Mergers**

Most antitrust legislation deals with restricting the harmful effects of mergers. A **merger** occurs when one corporation joins another corporation and, thus, controls the second corporation.

**Economic Connection to... Literature**

**Muckrakers**

The rise of monopolies in the late 1800s contributed to the development of a new kind of journalism—muckraking. The muckrakers wrote stories exposing corruption in business and politics. One of the most famous muckrakers was Ida Tarbell. She wrote a series of articles that attacked John D. Rockefeller’s monopoly, the Standard Oil Company.

In great detail, Tarbell showed how Rockefeller used unfair practices to drive his competitors out of business. She even likened Rockefeller to a crooked gambler: “Mr. Rockefeller has systematically played with loaded dice . . . Business played in this way . . . is fit only for tricksters.” Tarbell’s words led to a government investigation of Standard Oil’s business practices.

**Economic Connection to... History**

**The Trustbuster** During the presidency of Theodore Roosevelt, the Department of Justice started more antitrust suits against corporations than it had in all of the three previous administrations. Because of this vigorous enforcement of the Sherman Antitrust Act, Roosevelt earned the nickname “The Trustbuster.”

**Meeting Special Needs**

**Language Deficiencies** Students with language problems often have trouble distinguishing among words with related meanings. Learning objectives may require students to identify, explain, or discuss. Inform students that identifying usually involves listing by category, explaining requires giving reasons in a complete form, and discussing requires giving pros and cons. Provide students with opportunities to identify, explain, and discuss ideas during normal lesson time. **ECON: 23A**

Refer to *Inclusion for the Social Studies Classroom Strategies and Activities* for students with different learning styles.
CHAPTER 9
SECTION 3, Pages 248–253

conglomerate: large corporation made up of smaller corporations dealing in unrelated businesses

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with another corporation. As shown in Figure 9.11, three kinds of mergers exist: horizontal, vertical, and conglomerate.

When the two corporations that merge are in the same business, a horizontal merger has occurred. An example of a horizontal merger occurs when Video Store A buys Video Store B. When corporations involved in a “chain” of supply merge, this is called a vertical merger. An example would be a paper company buying the lumber mill that supplies it with pulp or buying the office supply business that sells its paper.

Another type of merger is the conglomerate merger. A conglomerate is a huge corporation involved in at least four or more unrelated businesses. Procter & Gamble is an example of a multinational conglomerate. With operations in 70 countries,
it produces or has acquired such businesses as Cover Girl cosmetics, Pert Plus shampoo, Clearasil skin care, Folgers coffee, Pringles potato chips, Jif peanut butter, Crest toothpaste, NyQuil cough medicine, Dawn dish soap, Cheer and Tide laundry detergent, Pampers diapers, and Charmin toilet paper.

**Regulatory Agencies**

Besides using antitrust laws to foster a competitive atmosphere, the government uses direct regulation of business pricing and product quality. Figure 9.12 on page 252 lists several regulatory agencies that oversee various industries and services. These agencies exist at the federal, state, and even local levels.

**Mergers**

Horizontal mergers involve businesses that make the same product or provide the same service. Vertical mergers take place when firms taking part in different steps of manufacturing come together. A conglomerate is a firm that has at least four businesses, each making unrelated products.

Some mergers create rather interesting names. In 1908, two Cincinnati banks, the Third National Bank and the Fifth National Bank, merged to become the Fifth Third Bank. In 1975, the bank changed its name again—to Fifth Third Bancorp.

**Free Enterprise Activity**

Direct students’ attention to the discussion about conglomerate Procter & Gamble on page 251. Then have students work in small groups to conduct research to find a conglomerate that has operations in their state. Direct groups to find advertisements, labels, and other visual materials of the various products produced by the conglomerate’s businesses. Have groups use these materials to create a collage titled “Portrait of a Conglomerate.” Encourage groups to display their collages around the room.

**L2 Writing Newspaper Articles**

Ask students to choose two corporations in the community and imagine they have merged. Have students write a newspaper article analyzing the merger and its impact on the local economy. Encourage students to present their articles in newspaper format—in columns accompanied by appropriate visuals. Call on volunteers to share their articles with the class.

**L3 Writing Editorials**

Ask students to write newspaper editorials that support or oppose the following statement: Government antitrust laws and agencies protect competition and benefit consumers. Call on volunteers to share their articles with the class.

**Student Edition TEKS**

Page 250: 3B, 4A, 9C, 10A, 15A-B, 24A

Page 251: 3A-B, 4A, 9C, 15A-B, 23A, 23F
Federal Regulatory Agencies

<table>
<thead>
<tr>
<th>Agency</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Trade Commission</td>
<td>Regulates product warranties, unfair methods of competition in interstate commerce, and fraud in advertising.</td>
</tr>
<tr>
<td>FDA (1927)</td>
<td>Regulates purity and safety of foods, drugs, and cosmetics.</td>
</tr>
<tr>
<td>Federal Communications Commission (FCC) (1934)</td>
<td>Regulates television, radio, telegraph, and telephone; grants licenses, creates and enforces rules of behavior for broadcasting; most recently, partly regulates satellite transmissions and cable TV.</td>
</tr>
<tr>
<td>SEC (1934)</td>
<td>Regulates the sale of stocks, bonds, and other investments.</td>
</tr>
<tr>
<td>Equal Employment Opportunity Commission (EEOC) (1964)</td>
<td>Responsible for working to reduce discrimination based on religion, gender, race, national origin, or age.</td>
</tr>
<tr>
<td>Occupational Safety and Health Administration (OSHA) (1970)</td>
<td>Regulates the workplace environment; makes sure that businesses provide workers with safe and healthful working conditions.</td>
</tr>
<tr>
<td>Environmental Protection Agency (EPA) (1970)</td>
<td>Develops and enforces environmental standards for air, water, and toxic waste.</td>
</tr>
<tr>
<td>Nuclear Regulatory Commission (NRC) (1974)</td>
<td>Regulates the nuclear power industry; licenses and oversees the design, construction, and operation of nuclear power plants.</td>
</tr>
</tbody>
</table>

**Meeting Lesson Objectives**

Assign Section 3 Assessment as homework or an in-class activity. 

Use Interactive Tutor Self-Assessment Software to review Section 3.

**Section Quiz 9-3**

**Quiz Chapter 9, Section 3**

**Government Policies Toward Competition**

1. interlocking directorate
2. antitrust legislation
3. merger
4. conglomerate
5. deregulation

**A**

a. board of directors with members who also serve as the board of directors of a competing corporation
b. reduction of government control over business activity
c. combined company that results when one corporation buys more than half the stock of another corporation

d. laws that prevent new monopolies from forming and break up those that exist

**B**

Have students review the information in Figure 9.12. **ASK:**

Which agency might conduct tests on the safety of a new drug? Food and Drug Administration

Which agency might you contact if you have questions about the regulation of cable television? Federal Communications Commission

Which agency might investigate charges of insider trading of stock? Securities and Exchange Commission

**ECON: 15A-B, 23A**

**Extending the Content**

**Nutrition Information** Government regulatory agencies can use the weapon of public disclosure—the requirement that businesses reveal information to the public. For example, the Food and Drug Administration (FDA) requires food producers to provide basic information on nutritional content of most food products. Nutrition information labels follow a standard format, listing amounts per serving of calories, protein, carbohydrates, fiber, fat, cholesterol, and other nutrients and vitamins. Since the FDA sets serving sizes, consumers are able to see which products offer the best nutritional value for the price.

**ECON: 15A-B**
Deregulation Although the aim of government regulations is to promote efficiency and competition, recent evidence indicates that something quite different has occurred. In the 1980s and 1990s, many industries were deregulated—the government reduced regulations and control over business activity. It was found that in trying to protect consumers from unfair practices, government regulations had actually decreased the amount of competition in the economy.

As an example, the Federal Communications Commission (FCC) had for years regulated the basic channels in the television market. With deregulation came the entry of competitive pay-TV, cable, and satellite systems.

Many economists speculate about what would happen if the government removed its watchdog responsibility toward mergers in general. Economists assume prices would rise. If, however, the price increases caused profits to be excessive, other sellers would find ways to enter the market. Consumers would benefit eventually from a competitive supply of goods and services.

### Understanding Key Terms

1. **Define** interlocking directorate, antitrust legislation, merger, conglomerate, deregulation.

### Reviewing Objectives

2. What is the difference between interlocking directorates and mergers?
3. **Graphic Organizer** Use a chart like the one below to describe the purpose of five federal regulatory agencies.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Applying Economic Concepts

5. **Regulation** If the shampoo you just bought caused your hair to fall out, which regulatory agency should you contact to complain? Why? What agency should you contact if the new washing machine your parents just bought breaks down, and the manufacturer refuses to honor the warranty?

### Critical Thinking Activity

6. **Categorizing Information** Type conglomerate into a search engine. Research one of the conglomerates that you find, and list all the businesses or products owned by that conglomerate.

### 4 Close

Have students discuss the following questions: What was the initial goal of government antitrust legislation? In your opinion, how successful has it been?

**ECON:** 9C, 15A-B, 23A

### Student Edition TEKS

**Page 252:** 3B, 15A-B, 16A, 21A-B

**Page 253:** 3B, 4A, 7A, 9C, 15A-B, 16A, 23A, 23F, 24A, 26B
Background

In 1975 William Gates—a 20-year-old Harvard dropout—founded Microsoft with business partner Paul Allen. The company’s big break came in 1980, when IBM asked Gates and Allen to provide the operating system for its new personal computer. (The operating system is the software program that manages the inner workings of a computer.) Today Microsoft is the worldwide leader in software for personal computers. In 2000, Bill Gates stepped down as CEO of Microsoft, assuming the position of Chief Software Architect. **ECON: 19D**

Teach

Have students read Gates’s thoughts on how computers have transformed—and will transform—business. Next, ask students to write questions they might like to ask Gates about his vision of business in the future. Call on volunteers to share their questions with the class. **ASK:** Based on the information in this feature, how do you think Bill Gates might answer these questions?

Assign the Checking for Understanding questions. After students have completed this assignment, have them search for more information on Microsoft—location of head offices, company organization, recent sales and income figures, and so on. Encourage students to present their findings in a brief written report. **ECON: 23A, 23C, 24D**

William Gates

ENTREPRENEUR (1955–)

In the book *The Road Ahead* (1996), Bill Gates explains his vision of an interconnected world built around the Internet:

"Over the next decade, businesses worldwide will be transformed. Intranets will revolutionize the way companies share information internally, and the Internet will revolutionize how they communicate externally. Corporations will redesign their nervous systems to rely on the networks that reach every member of the organization and beyond into the world of suppliers, consultants, and customers. These changes will let companies be more effective and often smaller. In the longer run, as broadband networks make physical proximity to urban services less essential, many businesses will decentralize and disperse their activities, and cities may be downsized too. Even the smallest of all businesses, the individual earning a living in a profession or as an artist, has been empowered by the PC."

One person without any staff can produce reports, handle correspondence, bill customers, and maintain a credible business presence—all surprisingly easily. In field after field, the tools of the trade have been transformed by PCs and software.

All of these electronic innovations—e-mail, shared screens, videoconferencing, and video phone calls—are ways of overcoming physical separation. As they become commonplace, they’ll change not just the way we work together but also the distinction we make between the workplace and everywhere else.”

**Checking for Understanding**

1. In Gates’s opinion, what will be the long-term impact of intranets and the Internet?
2. How does Gates characterize electronic innovations?

**Answers to Checking for Understanding**

1. Intranets and the Internet will revolutionize the way businesses communicate internally and externally over the next decade.
2. They are ways of overcoming physical separation among individuals and businesses.
Competition and Monopolies

Perfect Competition

- There are four basic market structures in the United States: monopoly, oligopoly, monopolistic competition, and perfect competition.
- Perfect competition is characterized by numerous buyers and sellers, an identical product, easy entry into the market, easy access to information about prices, and no control over price.
- The market for agricultural products is often used as an example of perfect competition because individual farmers have almost no control over the market price of their goods.
- When perfect competition exists, society benefits from its efficient allocation of productive resources.

Monopoly, Oligopoly, Monopolistic Competition

- In a monopoly, a single seller controls the supply of the good or service and thus determines the price.
- A monopoly is protected by barriers to entry, which could be government regulations, a large initial investment, or ownership of raw materials.
- Four types of monopolies exist: natural monopoly, geographic monopoly, technological monopoly, and government monopoly.
- Natural monopolies are often advantageous in that they give the company an economy of scale—which means because of its size, the company can produce the largest amount for the lowest cost.
- An oligopoly is an industry dominated by several suppliers who exercise some control over price.
- Oligopolies and monopolistic competitors use product differentiation to make their products more valuable in consumers’ eyes.
- Advertising brand names is vital in the market structure known as monopolistic competition, in which a large number of sellers offer similar but slightly different products.

Government Policies Toward Competition

- The government has passed antitrust legislation to prevent monopolies from forming or to break up those that already exist.
- Two famous pieces of antitrust legislation are the Sherman Antitrust Act and the Clayton Act.
- Three kinds of mergers exist: horizontal, vertical, and conglomerate.
- Federal regulatory agencies oversee various types of industries to ensure fair pricing and product quality.
- Deregulating some industries in the 1980s and 1990s resulted in more competition among businesses.

Economics Journal

Product Differentiation

Direct students to monitor family purchases of such items as soft drinks, breakfast cereals, toothpaste, and soap over a set period of time. Have them list these items, the brands of these items, and the reasons why the particular brands were chosen—price, quality, brand loyalty, and so on. At the end of the time period, have students present their findings in chart form. Ask students to accompany their charts with a brief analysis of their findings, noting how many of the decisions on brands were influenced by advertisements seen by family members. ECON: 4A-B, 9C, 23A, 23C, 23F, 24C-D
Identifying Key Terms

Write the letter of the definition in Column B that correctly defines each term in Column A.

**Column A**
1. barriers to entry
2. deregulation
3. conglomerate
4. interlocking directorate
5. geographic monopoly
6. merger
7. monopolistic competition
8. oligopoly
9. government monopoly
10. antitrust legislation

**Column B**
a. large corporation made up of unrelated businesses
b. the joining of two corporations
c. characterized by many firms but differentiated products
d. obstacles that prevent new companies from being formed
e. removing government restrictions from industries
f. characterized by a few firms with differentiated products
g. a store located in an isolated area
h. passed to prevent monopolies
i. building and maintaining local roads and bridges
j. situation in which some of the board of directors for competing companies are the same people

Recalling Facts and Ideas

**Section 1**
1. In a perfectly competitive market structure, how much control does a single seller have over market price?
2. What is the relationship between the types of products that sellers sell in a perfectly competitive market?
3. What is one example of an almost perfectly competitive market?

**Section 2**
4. What are the three types of market structures with imperfect competition?
5. What is the difference between a geographic monopoly and a technological monopoly?
6. How much control does an oligopoly have over price?
7. In monopolistic competition, how many sellers are there?

**Section 3**
8. What is the difference between a horizontal merger and a vertical merger?
9. What two methods does the federal government use to keep businesses competitive?

Thinking Critically

1. Answers may vary, but might include the following: When there are no government controls at work, the agricultural market is almost perfectly competitive. In an agricultural market, there are thousands of farmers (sellers) and thousands of wholesaler (buyers). With so many farmers, no one farmer has influence on price. And it is unlikely that farmers—or farmers and...
Thinking Critically

1. Finding the Main Idea Explain in a paragraph how supply and demand work in the agricultural market when government controls are not operating.

2. Making Generalizations Re-create the spider map below, then write two ways that the free enterprise system works to break the three powers of monopolies noted.

3. Making Comparisons What are the fundamental differences between the goals of antitrust legislation and the goals of federal government regulatory agencies?

Applying Economic Concepts

Competition and Market Structure Make a list of the four types of monopolies that exist. Under each type, list three real examples—whether at the federal, state, or local levels.

Cooperative Learning Project

Organize into groups of three—with one group member representing monopolies; another, oligopolies; and the third, monopolistic competition. Each member of each group should clip business advertisements and articles that characterize his or her market structure. As a group, compare the ads (and businesses) that each person collected. Defend your reasoning behind placing a particular company in its particular grouping.

Reviewing Skills

Drawing Inferences and Conclusions Using Figure 9.12 on page 252, infer which federal regulatory agency would be responsible for the following “ingredients” of making pizza.

1. Checks the freshness of milk that makes mozzarella cheese.
2. Determines that shipping rates are fair for the pepperoni arriving from out-of-state.
3. Makes sure the pizza advertisement on TV is truthful.
4. Enforces safe working conditions for employees in the pizza parlor.
5. Makes sure that the pizza parlor disposes of waste in a safe manner.

Technology Activity

Using the Internet Choose a regulatory agency mentioned in this chapter and use the Internet to find the agency’s homepage. Use the information to analyze the main functions of the agency and explain how the agency’s regulatory actions affect the circular flow model.

Procter & Gamble was mentioned in this chapter as an example of a multinational conglomerate. Use the Internet to find out (a) in how many countries P&G has manufacturing operations; (b) how many countries buy P&G products; (c) how many people are employed by P&G; and (d) what its annual worldwide sales are. Also note the names of products used in Africa, Asia, Europe, and Latin America. Write a report about your findings, and share your report with the class.

ANALYZING THE GLOBAL ECONOMY

Chapter Bonus Test Question

ASK: What are the four types of market structures? Provide examples of industries that match, or closely match, each of these market structures. perfect competition, monopoly, oligopoly, monopolistic competition; examples will vary ECON: 9C

Student Edition TEKS

Page 256: 3B, 9C, 15A-B, 24A

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Focus on Free Enterprise

1 Focus

Mention that in the little more than 20 years since its founding, The Home Depot has grown to more than 800 stores. These outlets averaged more than $25 billion in sales each year—nearly 15 percent of the market for home-improvement products. **ECON: 4A-B**

2 Teach

Direct students to read the feature. Then ask them to note the new approach to home-improvement products retailing introduced by Bernie Marcus, Arthur Blank, and Pat Farrar. Also, have them identify other aspects of The Home Depot operation that they find different or interesting. Conclude by asking students to discuss how these approaches contributed to The Home Depot’s success. **ECON: 23A, 23D**

A Different Approach

Homeco did not look, or work, like any other home improvement store Marcus and Blank had seen. The huge barn-like space was stacked from floor to ceiling with a vast array of home supplies. Every item was offered at a rock-bottom price. And there were tradespeople—painters, carpenters, plumbers, electricians, and so on—throughout the store ready to give shoppers help and advice. Marcus and Blank recognized that this blend of warehouse retailing and superior customer service was the way to go. They quickly asked Homeco’s owner, Pat Farrah, to join them in their business venture.

Shortly after, Marcus, Blank, and Farrah moved their operations to Atlanta, Georgia. They opened their first store—called The Home Depot—there in 1978. The store operated on four simple principles. First, stock a

Did You Know

The Home Depot’s stock is publicly traded and is included in the Standard & Poor’s 500 Index and the Dow-Jones Industrial Average.

Free Enterprise Activity

**More About The Home Depot**

The Home Depot has major plans for expansion in the new century. It wants to open more stores in foreign countries. And, in 1999, it opened a convenience-style hardware store in New Brunswick, New Jersey. This is a first of a chain of stores, called Villager’s Hardware, designed for smaller locations. The Home Depot fully expects to have 1,900 stores in business by 2003. Have students track the stock prices for The Home Depot for one month. **ECON: 4A-B**
large assortment of merchandise. Second, charge the lowest prices. Third, provide excellent customer service. Finally, cater to both the do-it-yourself amateur and the construction-industry professional.

The early days were a struggle. Sometimes, the partners did not have the cash to buy supplies. So Farrah stacked the store with empty paint cans and boxes to make it look as though it were well stocked. Over time, however, business began to pick up, and Marcus, Blank, and Farrah opened several more stores.

Building an Empire

In 1981 the partners took a major step, selling shares in the company. With the $4 million they made from the sale, they began an ambitious expansion program. First, The Home Depot began to establish a foothold in other states. Then the company went international, opening stores elsewhere in the Western Hemisphere. By 1999, it had outlets in 44 states, Puerto Rico, Canada, and Chile.

Sharing the Wealth

Since its earliest days, The Home Depot has offered employees the chance to share in its success. It gives many workers the choice of taking shares instead of year-end cash bonuses. Workers also have a chance to buy shares at discount rates. This practice, Arthur Blank thinks, simply is good business. When workers own stock, he says, they “feel that they own the stores, that they own the merchandise, that they have total responsibility for the customers in their aisles, and that they create the value.” Many workers certainly have benefited from the practice. About 1,000 of them have stock portfolios worth more than $1 million.

The Home Depot also makes an effort to share its good fortune with the communities in which it operates. In 1999 alone, it budgeted $15 million for charity. It also encourages its workers to volunteer for local charitable organizations.

Free Enterprise In Action

1. What new approach did The Home Depot bring to the home improvement industry?

2. Why does Arthur Blank think that offering stock to employees is good business practice?

Answers to Free Enterprise In Action

1. The approach followed four basic principles: stock a large assortment of merchandise; charge the lowest prices; provide excellent customer service; and cater to both the do-it-yourself amateur and the construction-industry professional.

2. Blank feels that when workers own stock, they feel that they own the stores and the merchandise and that they have responsibility for their customers. This will tend to encourage them to make a greater effort.

The Home Depot has been ranked by Fortune Magazine as America’s Most Admired Specialty Retailer for six consecutive years.