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MARKETS

What is a Market?

To develop the mechanics of supply and demand, we must narrow our vision to study of how a single market works. In each market, buyers and sellers are guided by the price system in their buying and selling decisions.

Types of Markets

A retail store, a gas station, a farmers' market, real estate firms, the New York Stock Exchange (where stocks are bought and sold), Chicago commodity markets (where livestock, grains, and metals are traded), auctions of works of art, gold markets in London, Frankfurt, and Zurich, labor exchanges, university placement offices, and hundreds of other specialized arrangements are all markets. Markets are arrangements for bringing together buyers and sellers of a particular good or service. The New York Stock Exchange brings together by means of modern telecommunications the buyers and sellers of corporate stock. Sothebys auction in London brings together the sellers and buyers of rare works of art. The Rotterdam oil market brings together buyers and sellers of crude oil not under long-term contracts. The university placement office brings university graduates together with potential employers. The gas station brings together the buyers and sellers of gasoline. In some markets, the buyers and sellers confront each other face-to-face (roadside farm markets). In other markets, the buyer never sees the seller (the Chicago commodity).

Determinants of the Form of the Market

The actual form a particular market takes depends on the type of good or service being sold and the costs of transporting the good from the point of production to the point of sale. Some markets are local (bringing together the buyers and sellers in all parts of the nation), others are international (bringing together the buyers and sellers in all parts of the world). Real estate is traded in local markets; houses and buidings cannot be shipped from one place to another (except at great expense). College textbooks are usually exchanged in a national market. The New York Stock Exchange, the various gold exchange, and the Chicago commodity exchange are markets in which buyers and sellers from around the world participate.

The study of marketing arrangement is a subject area in which economics and business administration overlap. Both disciplines presume the markets develop in an orderly fashion and teach that the market form that eventually evolves may be the one that keeps the cost of delivery (or marketing cost) to a minimum.

Perfect Markets

The real world consists of an almost infinite variety of markets. We are going to focuse our attention on a very special type of market, called a perfect (or perfectly competitive) market.

The principle characteristic of a perfectly competitive market is that buyers and sellers face so much competition that no person or group has any control over the price.

The markets where most people buy and sell goods are not perfect. Buyers and sellers may not be perfectly informed about prices and qualities. Two homemakers pay different prices in adjacent grocery stores for the same national brand of cookies. Houses that are virtually identical sell at different prices. Italy and West Germany pay different prices for the same grade of imported crude oil. Two secretaries with the same qualifications, responsibilities, and disposition in the same company earn different wages. AT&T, General Motors, and Saudi Arabia exercise some control over the prices they charge. Large buyers exercise some control over the prices they charge. Large buyers exercise some control over the prices they pay.

Many products, however, are exchanged in perfect markets. Stocks and bonds and commodities such as wheat, silver copper, gold, foreign currencies, oats, pork bellies, soybeans, lumber, cotton, orange juice, cattle, cocoa, and platinum are bought and sold in perfect markets. Private investors, mutual funds, commercial banks, industrial buyers of commodities, and agricultural brokers participate in these markets. Although markets like the local grocery store, the dry cleaner, the gas station, the college placement office, or the roadside stand are not perfect, many of them function in a way that approximates perfect markets. In this respect, the behavior of perfect markets serves as a useful guide to the way many real-world markets function, the perfect market is a valuable starting point for examining economic behavior.