

Microsoft Vista and its retailers: The impact of different level of competition on market structure

(1'000 words)

Sample

1. Introduction

Microsoft finally launched their Microsoft Vista on January 2007 after investing huge amount of money and time into this enormous project. Being the only firm that could produce Vista, Microsoft created a monopoly. However, the market for software retail is competitive as many firms sell the software. The different market structures would explain why Financial Times (2007) reported that anticipated profit for retailers of Vista is less than Microsoft. The structure of the market is determined by the different levels of competition within the market. This essay would examine the different structures Microsoft and its retailers operate in and explain how different structures affect a firm’s decision.

2. The different structures Microsoft and its retailers operate in

2.1 The Monopoly: Sole producer of Windows Vista

Monopoly is when there is only one seller or supplier of the good or service (Steelman, 2005). Firms are prevented from entering the market by barriers, which in the case of Vista, is the lack of resources and government regulations like having patents, resulting in a monopoly for Microsoft.

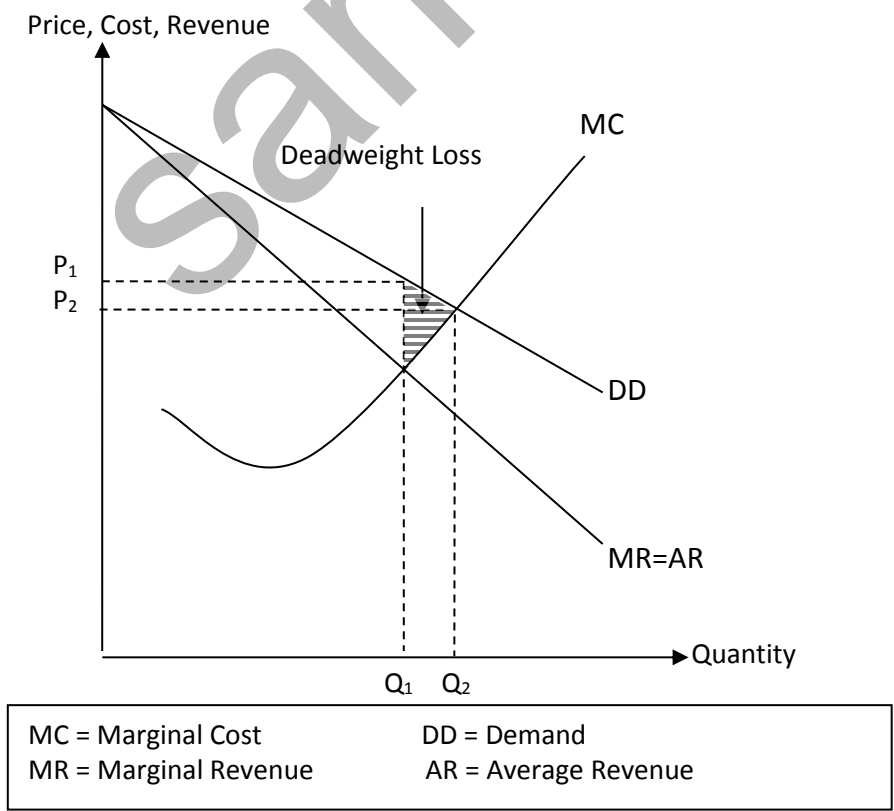
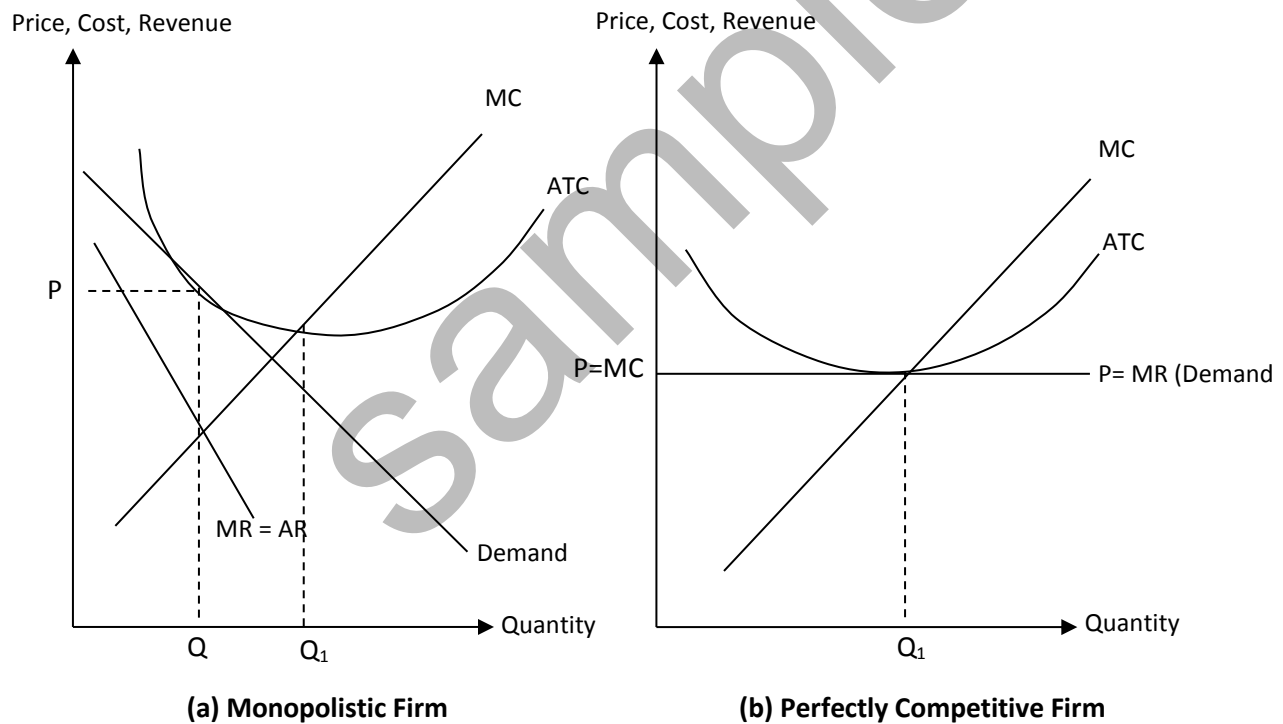


Figure 1 Monopolistic structure of Windows Vista

As a monopolistic firm, profit maximization is when production is at marginal cost equals to the marginal revenue ($MC = MR$). From Figure 1, Microsoft will produce at a less optimal output (Q_1) resulting in dead weight loss incurred (the shaded triangle in Figure 1) as the benefits and welfare is loss to the society. Microsoft gains super normal profit but at the expense of the efficiency and welfare of the society and consumer.

Microsoft’s decision to invest in research and development

The potential of earning super normal profit could explain why Microsoft invested so much time and money into developing the technology for Vista (Takahanshi, 2006). However, perfect knowledge and potential competition from previous goods (Chen & Schwartz, 2013) prevents firms in perfect competition from being innovative.



ATC = Average Total Cost AR = Average Revenue MR = Marginal Revenue MC = Marginal Cost

Figure 2 Equilibrium of a Monopolistic firm vs Perfect Competition firm in the long run

If more firms are allowed to produce Vista, Microsoft will lose its influence on deciding the price and its output will be restricted. Furthermore, in the long run, monopolistic firms

produce at Q earning profit more than or equal to zero while firms in perfect competition will always earn zero profit in the long run as shown in Figure 2. When more firms join and produce Vista, creating a perfect competition market, Microsoft would not invest as much money and time into research and development of new software as there is less incentive for them to do so.

2.2 Perfect Competition market: PC manufacturer

In perfect competition, there are many firms selling homogenous products with perfect knowledge and perfect freedom of entry and exit from the industry (McConnell, 2008). They are also price takers as an individual firm will not be able to influence the market price. PC manufacturers are in perfect competition as they produce products with similar functions.

In the long run, firms will enter the market if there is super normal profit. The supply curve shifts to the right, causing a downward pressure on the price until remaining firms no longer earn super normal profit (as shown in Figure 3).

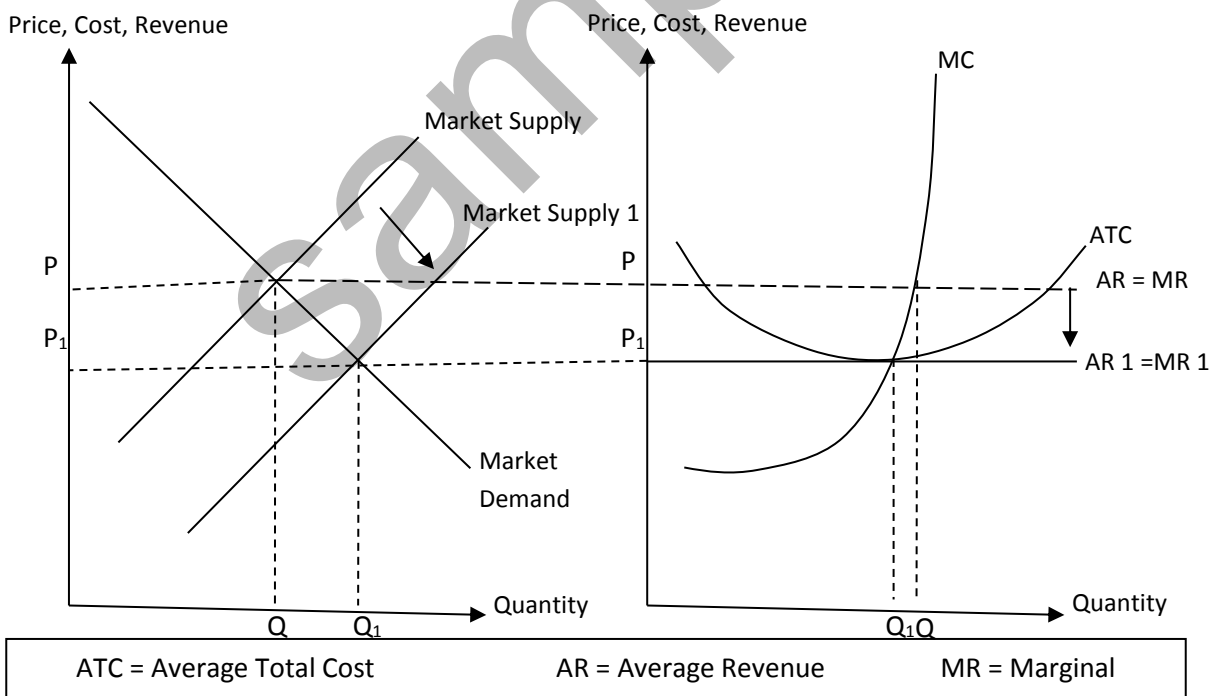


Figure 3 Graphs showing relationship between market demand and supply when there is super normal profit (left) and long run equilibrium in perfect competition market (right).

On the other hand, firms will exit the market when there is loss, especially since there are no exit barriers. This will shift the supply curve to the left, resulting in an upward pressure in the price. The remaining firms will then be able to earn normal profit. Therefore in the long run, firms in the perfect competition market will settle in equilibrium, producing at the quantity where price equals to marginal cost ($P=MC$) and earn normal profit (Figure 2).

2.3 Duopoly: Market for computer chips, AMD and Intel

AMD and Intel are the only two major suppliers in computer chips. These chips are considered to be complementary to computers as they are necessary for computers to be functional. Competition between AMD and Intel has been fierce and they are constantly pushing each other to innovate to attract consumers (Goettler & Gordon, 2011). However, the firms can also be seen as having mutual interdependent relationship (McConnell, 2008). This differs from market for operating systems which is a perfect competition. The different operating systems are seen as substitutes since there are many suppliers. Therefore, the difference in level of competition led to different market structure in the market for computer chip and operating system.

3. Conclusion

To sum up, for Microsoft Vista and its retailers, there are various structures involved like monopoly, perfect competition and oligopolies. While Microsoft enjoys the benefits of super normal profits as the monopoly for Vista, the perfect competition for its retailers results in smaller profit. PC manufacturers operate in the perfect competition market due to nature of the competition between their homogenous products while the market for computer chips operate in a duopoly as the market is supplied by two firms. In conclusion, the various market structures affect firms' decisions like the price of products and the output quantity. It is important to understand the different structures so as to make better decisions and ensure profit maximization.

4. References

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