

**MARKET STRUCTURES AND THEIR INFLUENCE ON THE DEGREE OF
COMPETITION IN THE FINANCIAL SECTOR**

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Аннотация: В работе рассматриваются основные типы рыночных структур и их особенности. Анализируются модели совершенной конкуренции, монополистической конкуренции, олигополии и монополии, а также их различия по уровню конкуренции и степени влияния фирм на уровень цен. Особое внимание уделяется примерам из финансового сектора. По итогам исследования сделан вывод о зависимости рыночной власти фирм от количества участников рынка и существующих барьеров входа.

Ключевые слова: рыночные структуры, совершенная конкуренция, монополистическая конкуренция, олигополия, монополия, финансовый сектор.

Abstract: The article examines the main types of market structures and their key characteristics. It analyzes the models of perfect competition, monopolistic competition, oligopoly, and monopoly, as well as the differences between them in terms of the level of competition and the degree to which firms influence prices. Special attention is given to examples from the financial sector. The study concludes that the market power of companies depends on the number of market participants and the existing barriers to entry.

Keywords: market structures, perfect competition, monopolistic competition, oligopoly, monopoly, financial sector.

Markets bring together buyers and sellers, thereby facilitating the exchange of goods, services, and resources. Markets may take various forms, including roadside stalls, coffee shops, hair salons, online stores, and even ride-hailing platforms. Other types of markets also exist, such as the London Stock Exchange and NASDAQ, where securities are traded. Brokers may act as intermediaries, assisting market participants in conducting securities transactions.

Markets extend beyond tangible goods and financial assets. In the labor market, young professionals supply their human capital, while employers generate demand by acquiring their knowledge and skills. Similar principles govern the operation of stock markets, the foreign exchange (Forex) market, as well as markets for services and digital products.

Despite certain common features, various markets differ in the number of participants, the degree of competition, the ability to influence prices, and barriers to entry. These criteria help categorize markets according to their structure, distinguishing such market structures as perfect competition, monopolistic competition, oligopoly, and monopoly.

Perfect competition (also referred to in the economic literature as pure competition) is a market model characterized by a large number of independent firms producing homogeneous products. Since the products of various producers are identical, an individual firm has no ability to influence the market price and therefore acts as a price taker.

Under conditions of perfect competition, a firm lacks market power and is unable to exert any significant influence on the price of the goods it sells. The share of an individual producer in the total market supply is so small that changes in its individual output do not have any noticeable effect on the market price level. Consequently, an individual firm acts as a price taker: it cannot set the market price and must adjust to it. Under these conditions, setting a price above the market level is economically irrational. If a firm attempts to charge a price higher than the prevailing market price, consumers will choose competitors offering an identical product at the market price.

This model is characterized by free entry for new firms, while existing producers can cease operations and exit the industry without obstruction. Owing to the absence of significant barriers, firms can allocate their resources freely, which makes the entire market system more flexible and adaptive. It should be cknowledged that perfect competition is relatively rare in practice. Nevertheless, it serves as a benchmark against which other market structures can be compared.

Monopolistic competition is a type of market structure that combines elements of free competition and monopoly power. It is characterized by a relatively large number of sellers, product differentiation, as well as free entry into and exit from the industry. Unlike under perfect competition, products are not homogeneous or standardized. This is reflected in the fact that firms offer products that differ from those of their competitors in terms of quality, design, brand, packaging, or level of service. For example, in the financial sector, differentiation may be observed in the market for banking and investment services, where firms offer a similar range of basic products but differ in cash settlement services, credit products, digital services and technologies, interest rates, and brand reputation.

Despite the relatively large number of firms, producers in this market structure possess a certain degree of control over pricing due to product differentiation. When consumers prefer specific brands, they are willing to pay more, within reasonable limits, in order to satisfy their preferences. However, the producer's control remains significantly limited because of the presence of close substitutes in the market, which consumers can purchase from other firms.

Entry into an industry under monopolistic competition is relatively easier for new market participants compared with pure monopoly. Operating in such industries generally requires a relatively small amount of initial capital, since economies of scale are weak. However, unlike perfect competition, additional financial barriers may arise here due to the need for product differentiation and its promotion in the market.

Exit from an industry under monopolistic competition is relatively straightforward. If a firm becomes unprofitable, it can exit the market entirely without facing significant barriers.

Oligopoly is a type of market structure in which a limited number of firms dominate the market, producing either differentiated or homogeneous products. The small number of market participants gives them significant influence over pricing and results in strategic interdependence, as each firm must take into account the likely reactions of its rivals when shaping its pricing policy, marketing strategy, and output levels.

Depending on the nature of the product offered, a distinction is made between homogeneous oligopoly (involving a standardized product) and differentiated oligopoly (involving products that differ in quality, brand, or service). Under conditions of homogeneous oligopoly, for example in the interbank market or in the exchange-traded gold market, competition is predominantly price-based, and the scope for differentiation is minimal. By contrast, under differentiated oligopoly in the financial sector, such as in retail banking or insurance markets, firms are able to charge a price premium due to brand strength and service quality. In this case, competition shifts from interest rates to the convenience of ecosystems, the quality of mobile applications, and loyalty programs.

The dynamic development of firms and profit maximization are largely driven by the implementation of comprehensive strategies. Firms in the financial sector pay particular attention to pricing policy, operational expansion, as well as the development of services and advertising activity. Given the small number of participants in the market, strategic interdependence arises, and the financial performance of each firm is determined not only by its own pricing policy and scale of operations, but also by the strategic responses of its competitors. For example, when revising its fee structure or introducing new technological standards, Visa must anticipate the possible responses of its key competitor, Mastercard. Similarly, when launching bonus programs or global advertising campaigns, Mastercard takes into account the potential reaction of Visa.

In a number of segments of the financial market, such as retail banking and payment processing, several large firms concentrate a significant volume of operations, enabling them to achieve substantial economies of scale. For new entrants, whose market share is relatively small, attaining a comparable level of efficiency proves difficult. As a rule, their per-customer servicing costs are higher, which significantly complicates their ability to establish a stable position in the market.

Closely related to economies of scale is another important barrier to entry: substantial initial investment. In the financial sector, such investment is primarily associated with the development of complex IT platforms, data protection systems, and the maintenance of uninterrupted transaction processing. Among the most capital-intensive areas are payment processing infrastructure and global payment systems. The launch of such projects requires not only costly software, but also the creation of significant reserve funds, without which a firm cannot obtain a license to carry out financial activities.

Under such conditions, oligopoly may be defined as a market with a small number of large participants whose strategies are interdependent. High barriers to entry limit the emergence of new firms and contribute to the preservation of the existing market structure. However, if market power becomes concentrated in the hands of a single producer, such a structure turns into a monopoly.

Pure monopoly arises when a single firm operates in the market, producing a unique product that has no close substitutes. In this case, the firm effectively constitutes the entire industry, which is why the terms “firm” and “industry” are often treated as synonymous. The product of such a firm is unique and has no real equivalents. For the consumer, this means the absence of choice, as they must either accept the monopolist’s terms or forgo the purchase. The monopolist exercises full control over supply and can exert significant influence over the price level.

The monopolist does not face direct competition, as entry into the industry is protected by substantial barriers. These barriers may be associated with legal restrictions, technological factors, or significant costs; however, their overall effect is the same: access to this market is effectively closed to any other firm.

A monopolist’s product is not always unique in its physical characteristics. It may be either a standard resource, such as natural gas, or a more specific product. In the financial sector, the SWIFT system provides a clear example. The transmission of financial messages is, in itself, a fairly typical service; however, the absence of global alternatives turns it into a unique piece of infrastructure. As a result, for banks worldwide, SWIFT becomes the principal means of conducting cross-border settlements, since no effective substitute for this system exists.

Thus, pure monopoly in the financial sector is sustained not only by the uniqueness of the product itself, but also by the absence of viable infrastructure alternatives. As long as entry into such markets is blocked by substantial costs or legal restrictions, the emergence of competition is effectively excluded. As a result, all market power is concentrated in the hands of a single participant, while other firms have no opportunity to offer an alternative.

In summary, the differences between market models are determined primarily by the number of participants and the degree of their influence over prices. While firms under perfect competition lack market power, under monopolistic competition and oligopoly they are able to exercise partial control over prices through brand strength, scale of operations, or product differentiation. The extreme case is pure monopoly, in which market power is concentrated in the hands of a single producer. Thus, the fewer firms operate in the market, the greater their control over prices and overall market conditions.

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