Case study continued ...

Of course if you're a monopoly owner of all minibus taxis in South Africa, it's a different story – you can increase taxi fares and tell your passengers to suck it up (like ACSA is doing).

Like most monopolies. ACSA talks a lot about "customer-focused service" – but its actions demonstrate its contempt for its customers. One needs to look no further than the airline industry to see the benefits of introducing competition into the market – not everybody may like low-cost carriers like Kulula and 1Time, but they have given people the option, and together with price comparison sites like SouthAfrica.TO, have driven airline fees down dramatically. Competition has transformed the airline industry, yet a regulated monopoly continues to deliver abject service, endless waits for baggage, high levels of theft, airport security lapses and frequent waits for the arrival of disembarkation equipment.

Source: http://www.southafrica.to/transport/Airports/ACSA/ACSA-monopoly.php5

Activity 3.2 Case Study (solo)

1. Describe the concept of monopoly.
2. Would you describe the taxi business in South Africa as a perfect competitive market? Explain.
3. The writer states that "you can increase taxi fares and tell your passengers to suck it up".
   a) Why does he make this statement?
   b) Is it possible for a perfect competitor to make this statement? Explain.
4. What are the great advantages of competition, according to this article?
5. What is meant by a "regulated monopoly"?

3.4 The oligopoly

The oligopoly is a type of imperfect market in which a few producers dominate the market. In this type of market the sellers are so few that the action of any one of them will materially affect price and have a measurable impact on competitors. Examples of these markets include daily newspapers, supermarkets and airline companies serving the same routes.

Some of the most important characteristics of the oligopoly market are:

- The products or services of these firms can be homogeneous (the same) or heterogeneous (slightly differentiated with regard to identity, but essentially similar).
- Entry to this market is possible but limited in the sense that huge capital outlays might be necessary.
- The most important characteristic is the interdependence of the oligopoly firms. Each of the firms knows its market share. The behaviour of one firm can influence other firms dramatically. A change in price or change in market share by one firm is reflected in the sales of the others; this encourages non-price competition through advertising, packaging, after-sales-service, etc
- The oligopolist can influence prices, but not as much as the monopolist. Price wars are a common feature used to limit entrance or to drive other firms out of the market. An example is an airline offering cheaper airline tickets.
- Firms in the oligopoly market can work together to form a cartel. Their behaviour is then the same as the profit-maximising monopoly. A cartel is a formal