

THEORETICAL ASPECTS OF COMPETITION IN MODERN ECONOMY

KONKURENCES TEORĒTISKIE ASPEKTI MŪSDIENU EKONOMIKĀ

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Abstract. *Competition is rivalry, economic struggle, competition between sellers and producers for the right to obtain maximum profit and between buyers when buying goods for great profit. The paper reveals that competition fulfills the most important function in a market economy - it forces producers to take into account the interests of the consumer, and therefore the interests of society as a whole. In the course of competition, the market selects from a variety of products only those that consumers need. The aim of the present paper is to show different views on competition in one unified system, called here the field of competition. Novelty of the research is the attention paid to the essence of competition in the economy and the issues caused from scarce competition.*

Keywords: *competition, competitiveness, economy, management.*

Introduction

Competition is a struggle between business entities for the best position in the market. The essence of competition is the constant search for the best conditions for both the consumer and the seller. For all participants in market relations, competition is an objectively compulsory phenomenon, but, first of all, it is such for producers of goods and services. The realities of the competitive struggle force enterprises to introduce new production technologies, increase labor productivity, maintain or reduce the cost of products. In other words, competition helps to reduce production costs, save resources, and forces the most efficient combination of the factors of production used.

The aim of the present paper is to show different views on competition in one unified system, called here the field of competition. The first part of the paper deals with the overall concept of the competition and its' types. The second part introduces the levels of competition and the issues arising from the lack of competition.

Research tasks:

- to explain the concept and main types of competition in modern economy;
- to show the levels of competition;
- to describe affects of lack of competition in economy;

Research period: is modern economy of recent years 2011-2020

Research methods: analysis, observation and secondary data collection

The concept of competition and its' main functions

Competition, as a rivalry phenomenon, can be compared to a race between opposing individuals, and it can also be linked to Darwinian selection, a process that demonstrates the survival of the fittest (and the elimination of the others). Competition is qualified as an efficient mode of selection in this line of thought, with the "best ones" being former winners and current survivors (*Berta et al., 2012*).

The Edgeworthian line investigates the relationship between core and competitive allocations. The core serves as the foundation for competitive equilibrium. There are two approaches that can be used: the asymptotic approach and the atomless approach.

Both approaches are based on the theory of cooperative games. For finite economies, the asymptotic approach was implemented using a replication procedure.

They show that, given uniformly bounded initial endowments, the center of an economy repeated an infinite number of times converges to the set of competitive equilibria. The atomless approach, on the other hand, indexes the set of agents by a continuum with an atomless measure space.

Competition in a market economy has many essential functions as:

- **Regulation.** To win the competition, the manufacturer must offer goods and services that are in priority demand from the buyer. Production factors under the influence of prices are redistributed in the industries that need them most.
- **Motivation.** Producers who offer quality products at the best price, that is, manufactured at the lowest cost, make a profit, which becomes an incentive for technological progress. Enterprises that do not respond to the needs of consumers, violate the rules of competitive rivalry, incur losses and can be completely squeezed out of the market.
- **Distribution.** Competition not only stimulates productivity gains, but also contributes to a fair distribution of income among its participants, depending on the effective contribution of each.
- **Control.** Due to competition, the economic influence of each business entity is limited. The buyer can choose among several sellers. And if we are talking about the price of a product or service, then the cleaner (more perfect) market competition, the fairer the final price for the consumer.

Competition and its types in modern economy

Competition and competitiveness are terms that are frequently used in business and public debate about economic units, their environments, and their ability to perform in accordance with strategic or policy goals derived from business, economic, or social objectives. Despite the fact that, people who use the term” competitiveness “do so without a second thought,” the meaning of the terms remains ambiguous, and to complicate matters further, the exact meaning depends on the problem at hand (*Listra, 2015*).

In the market economy, the participants in the competition are, first of all, firms that compete with each other for the sales market. However, individual people also participate in competition - they compete in the labor market, offering employers their work of different qualifications for different wages. Finally, within the framework of the world economy, there is competition between different countries, each of which seeks to get ahead of other countries (or catch up with those that have gone ahead) in the struggle for better conditions for its citizens and for domestic entrepreneurs. Some social scientists see competition as a universal mechanism that explains the development of society as a whole it appears as a competition between socio-economic systems and individual “rules of the game”. This idea goes back to the writings of the famous Austro-American economist Friedrich von Hayek, who called competition a “discovery procedure.”

In a competitive market, in modern economy rivals use various methods of struggle: price, non-price, dishonest.

The forms, methods, techniques of the competitive struggle of the owners of different competitive status are inexhaustible and constantly changing. This division of enterprises is based on the ways to achieve the goal, the choice of competitive strategy and the type of competitive behavior. Market structure forms four main types of competition (see Figure 1).

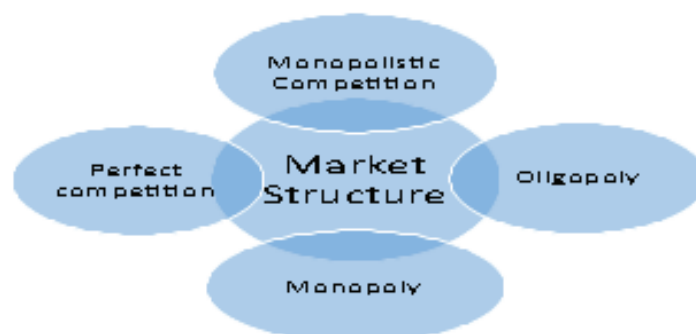


Figure 1 Types of competition in the market structure of economy (compiled by the author)

In the conditions of market relations, competition and its forms act as interaction, rivalry of entrepreneurs for ensuring the possibility of selling their products, thereby satisfying the needs of buyers. There are such forms of competition as:

1. Perfect competition is competition in which there are a large number of independent firms in the market, the type of product is standardized, there is no price control at all, and entry into this industry is not difficult. Under perfect competition there are no deadweight losses. This means that resources are efficiently allocated (*Cachanosky, 2011*).
2. Pure monopoly is a competition in which the number of firms on the market is single, that is, one large company. Its product type is unique, and price control is complete. It is very difficult to enter such an industry. The purest form of a monopoly is one in which a single entity controls all of a particular industry. But from an antitrust perspective, even a company controlling 25% of an industry can be considered monopolistic (*Krugman, 2020*).
3. Oligopoly is a competition in which several large companies (enterprises) dominate on the market, the type of product produced is standardized, and price control depends on the market leader. This industry is also difficult to enter. Oligopoly power and oligopolistic behavior causes a significant loss of economic efficiency (*Schechter, 2019*).
4. Monopolistic competition is a market condition in which there are many sellers offering similar but not the same products. In this phrase, “monopolistic” means that each organization tries to find or create a separate narrow niche in which it can become a monopoly, and “competition” demonstrates the existence of competition between companies, price control is limited, and entry into the industry is quite possible.

Competition can yield:

- lower costs and prices for goods and services,
- better quality,
- more choices and variety,
- more innovation,
- greater efficiency and productivity,
- economic development and growth,
- greater wealth equality,
- a stronger democracy by dispersing economic power, and
- greater wellbeing by promoting individual initiative, liberty, and free association (*Stucke, 2013*).

Affects of lack of competition in economy

The existence of healthy competition is essential part of market in all industries. Like sport, competition offers companies an opportunity to excellence, thereby promoting creativity, flexibility in supply and attractive prices for both customers and businesses. Competition thus stimulates growth and gives the community significant benefits. The importance of purchasing power cannot be overstated. The policy of competition is a powerful and effective tool to guard against competition, controls on takeovers and fusions and updates legislation and regulations all aim to achieve the same goal: to drive genuine competition, which in particular translate into more attractive consumer prices (*Autorite de la concurrence, 2018*).

Consumers and the economy are getting a bad deal because companies don't face enough competition. According to new research, consumers are paying higher prices and receiving poorer service than they should because the markets that matter the most to them are not competitive enough says (*Social Market Foundation, 2017*).

Large companies in sectors such as broadband, mobile telephony, and personal banking do not face enough competition, resulting in a lack of choice, higher prices, and underinvestment for consumers. As a result, everyday consumers have less money in their pockets, and the country as a whole has a less productive economy (*Social Market Foundation, 2017*).

According to the Social Market Foundation, the negative effects of a lack of competition in consumer markets are also fueling public dissatisfaction with the economy and distrust in business.

There is a link between higher levels of market concentration and lower levels of customer service and market trust. Consumer trust is more likely to have increased as industry concentration has decreased (*Social Market Foundation, 2017*).

According to the new Social Market Foundation analysis, a lack of competition in key consumer markets is causing a number of negative outcomes:

- Lack of choice - In concentrated markets, consumers may not have many product and service options as they would like.
- Poorer customer service and lower levels of trust - we discover a link between higher levels of market concentration and lower levels of market customer service and trust.
- Higher prices - When markets become more concentrated, consumers often face higher prices.
- Profits that are “supernormal” and underinvestment - When competition is low, company profit margins are likely to remain higher than would otherwise be the case. The presence of abnormal profits contributes to an unequal distribution of wealth and income, raising concerns about social justice and fairness (*Social Market Foundation, 2017*).

Economics as a competitive field entails more than just the pursuit of growth and markets. Competition as policy also requires the use of economic resources to further geopolitical objectives. Some researchers and policymakers have coined the term “geoeconomics” to describe these applications. This is not the use of structural instruments to boost a country’s economy. Rather, it is the use of economic instruments to achieve other objectives, such as defending the nation (*Shatz, 2020*).

As well as competition in economy has several types, it can be also classified by levels of performance (see Figure 2).

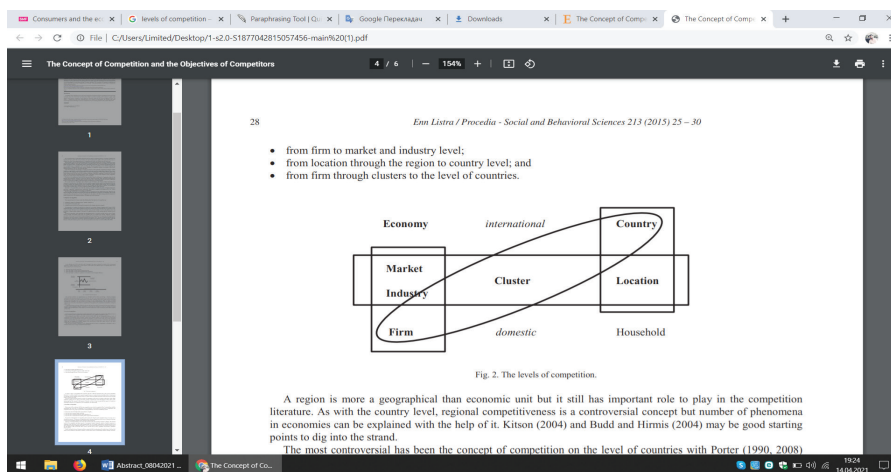


Figure 2 Levels of competition in economy (*Listra, 2015*)

A region is more of a geographical than an economic unit, but it still plays an important role in the literature on competition. Regional competitiveness, like national competitiveness, is a contentious concept, but it can explain a variety of economic phenomena (*Listra, 2015*).

Conclusions and suggestions

1. In conclusion, competition policy plays a key role in fostering dynamic markets and in stimulating economic growth. The international competitiveness of industries depends on access to inexpensive inputs, improvements in efficiency and productivity, and innovation, all of which competition promotes.
2. Competition in the marketplace benefits both consumers and businesses. When businesses compete, consumers benefit from the best possible prices, quantity, and quality of goods and services.
3. One significant advantage of competition is that it stimulates innovation. Competition among businesses can spur the development of new or improved products, as well as more efficient processes. Firms may compete to be the first to bring a new or different technology to market. Consumers benefit from new and improved products, and innovation also drives economic growth and raises living standards.

4. Making anti-cartel enforcement should be number one priority for government. As this form of monopoly will always inhibit development of the economy.
5. More efficient and stronger laws for competition should be installed. As one of the main ways to have a competitive environment in the country is creating this environment based on legal options.

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Kopsavilkums

Konkurence attiecas uz sāncensību, ekonomisko cīņu un sacensību starp pārdevējiem un piegādātājiem par tiesībām gūt vislielāko peļņu, kā arī starp patērētājiem, pērkot produktus ar augstu peļņas normu. Rakstā apstiprinās tas, ka konkurence tirgus ekonomikā pilda vissvarīgāko funkciju, liekot ražotājiem ņemt vērā patērētāja intereses un tādējādi visas sabiedrības intereses. Konkurences gaitā tirgus no daudzām iespējām izvēlas tikai tos produktus, kurus patērētāji pieprasa.