# Analysis of Tesla Inc. Market Structure

Tesla is an American designer, developer, manufacturer and distributer of power-trains and electric cars (Telsa.com). It also provides automotive services to other companies in the same industry. Tesla enjoys a large market share and is one of the leading US companies in the electric car industry**.** Tesla Inc. runs in an oligopoly by virtue of operating in an industry that has very few players.

An oligopoly is a market structure whereby only a few firms dominate and consequently the level of competition is relatively low. As a result of this limited competition, firms in this market structure can either collaborate or choose to compete against each other. Collaboration results in increased market power and as such, firms that collaborate are able to increase prices and earn greater profits (Bertoletti & Etro, 794). Some of the assumptions upon which an oligopolistic market is built include: that all firms maximize profits, oligopolistic firms can set prices, there are barriers to entry into and exit out of the markets, products may be differentiated or homogenous and finally that there are only a few firms dominating the market(Stackelberg, 12).

Tesla Inc. qualifies as an oligopoly first because the electric car industry in which it operates is run by few companies which also mean that there is limited competition as is characteristic of oligopolistic markets. There are barriers to entry into this market which is mostly because of the high costs involved in implementing the level of technology required to utilize electrical energy for auto production. Another feature of oligopoly that Tesla has is that the company and other firms in this market can set prices for their commodities and this is especially enhanced by the fact that most firms in this market collaborate through such ways as giving away patents for technological inventions to other firms in the same industry as in the case with Tesla Inc.

Perfect competition refers to a market structure whereby many small firms compete against each other on fair grounds. In this structure, none of the firms has any significant undue market power over its competitors and as such, none of the firms is able to solely influence market price (Bertoletti & Etro, 796). Some of the main characteristics of this market structure include an opportunity for all firms to maximize profits, free entry into and exit out of the market, homogeneity of products and services by all firms in the industry and consequently no consumer preferences (Stackelberg, 13). In an industry operating in this market structure, the socially most favorable output is attained as all the firms have equal market power. Perfect competition is difficult to attain in reality as the conditions under which it operates are impossible to meet.

One of the differences between oligopoly and perfect competition is that while in oligopoly there are only a few large firms, perfect competition is characterized by presence of many small firms. As pertains to entry and exit in the markets, there are barriers in oligopoly while there are none in perfect competition. Firms in oligopoly influence market price while in perfect competition none of the firms controls price. As pertains to nature of products, in perfect competition products are homogenous while in oligopoly they can be differentiated or homogenous. The two market structures also bear some similarities such as the presence of competition and the assumption that firms in both structures maximize profits.

In light of the comparison drawn between perfect competition and oligopoly, it is clear that perfect competition would be the best market structure to operate in as it provides equal business opportunity for all players in the market. However, it would be impossible to achieve in reality. As such, it would be best to implement those properties of perfect competition that are attainable as a starting point towards creating a market structure that creates equal opportunity for all.

## Works Cited

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