

Is Stock Market Still An Example Of Perfect Competition?

Deepak Pathak

Earlier when the concept of stock market was introduced, only major businessmen and rich people used to invest. Since, the participation size and platform was small with equal clarity to all, stock market was stated as nearly perfect competition market. As market evolved, large number of corporate groups, buyers and sellers came into the scene and of course there was & there is homogeneity of goods i.e. stocks. From the beginning it was all about Demand & Supply.

But an important property of perfect competition is that that nobody has the capability to change the market equilibrium price or simply the prices. This was true with the market for a period of time, but then as small traders, brokers and individual started showing interest and started making money out of this, the bigger players – be it business tycoons, large MNC's, financial institutions and hedge funds started to gain power to exploit comparatively small traders by taking up huge market share, stock split/reverse stock split.

After such manipulations and the 2008 financial crisis, people started framing the stock market as 'gambling'. This is no more a normal market where you, an individual has all the information and can predict and book their profits however this is a game of psychology, whoever reads it first and acts, gains the most. So, this is definitely not gambling but a well planned and analyzed industry to work in.

“If you have been playing poker for half an hour and you still don't know who the patsy is, you're the patsy.”

- Warren Buffet

That is what the harsh reality of today's stock market is.

Manipulations are legal but sometimes they are not which includes insider trading, official rumours and many more. In a broader sense this whole industry has turned out to be an oligopoly, where bigger players enjoy their profits and many smaller players turn out to be in debt and bankrupt as well. No doubt smaller players also gain profit but only those who can study and understand the whole scenario beyond others. In fact 85% of the participants in the market own 5-10% of shares and the other 15% own the rest. Clearly there's no perfect competition and this is the reason why the world has seen huge stock market bubbles burst.



A bubble originates when investors put so much artificial demand that the price goes beyond its rational reflection of its worth. It's just like the soap bubble a child likes to blow, these bubbles often appear as though they will rise forever, but since they are not formed of anything substantial, they eventually pop. And when they do, the money that was invested into them dissipates into the wind. Thus, the evolution of stock market from perfect competition to imperfect competition has led to a fear of economy crashes.