Unit-3 Introduction to markets & pricing policies

A, Markets
B, pricing policies.

A, Markets:

Market refers to an arrangement where by buyers and sellers come into close contact with each other directly or indirectly. so to sell and buy goods & services for agreed price.

Features of the market:

1. Buyers and sellers
2. Exchange of goods & services between buyers and sellers.
3. There is an existance of product & service
4. There is an pre-determined price

classification of Markets:

A) on the basis of place/Area:

1, local markets
2, Regional markets
3, National markets
4, International markets. (Ex-Imp)

B) on the basis of time:

1, Very short run market
2, short run market (months)
3, Medium Run market (2-5 yrs) (Post office deposits)
4, Long Run market (Bank deposits)

5, very long run market (E.g: Airports, NH)

classification of markets on the basis of competetion:

perfect competitive market

A)

Imperfect competetive markets

A) Monopoly imperfect market
i, price discrimination
B) Duopoly imperfect market.
c) Monopolistic imperfect market
D) oligopoly imperfect market

Perfect competitive market.

perfect market is an ideal market in the market.

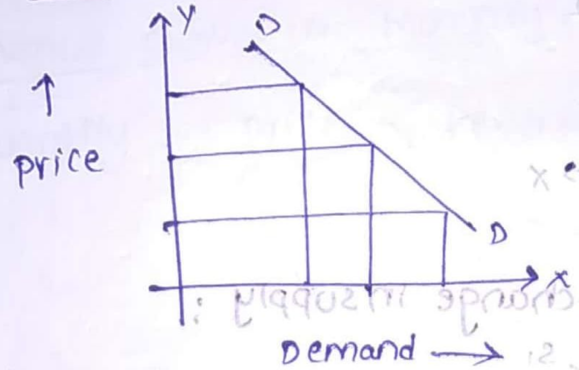
Features in perfect competetive market:

a. There is an large number of buyers and sellers
b. products are homogeneous (uni-form)
c. There is an unique price (no changes in price)
d. perfect knowledge about the market conditions.
e. There is no transportation costs.
f. Mobility of factors of production.
g. Free enter and exit

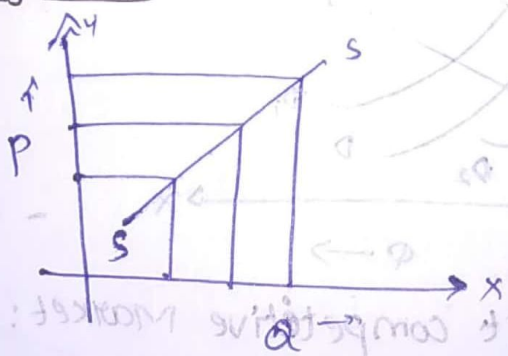
pe
price-output determination in perfect competetive market:

price	Demand	supply
10.00	18000	10000
12.00	16000	12000
14.00	14000	14000
16.00	12000	16000
18.00	10000	18000

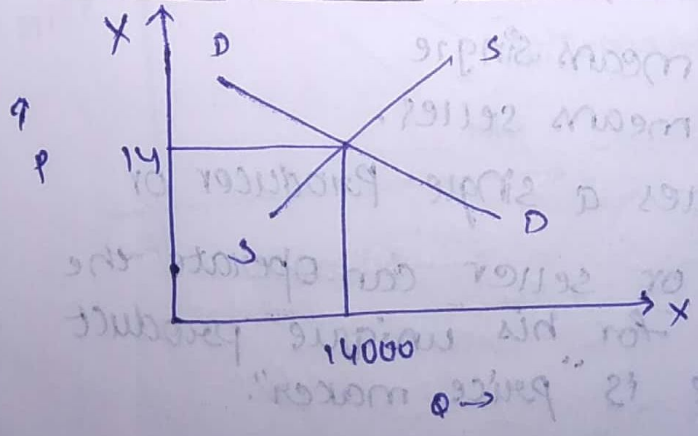
Demand curve:



Supply curve:

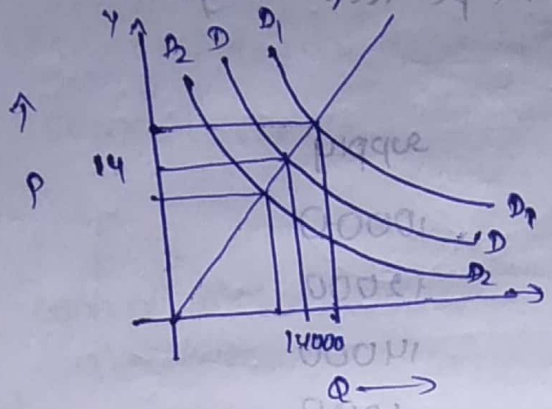


Determination of equilibrium price:

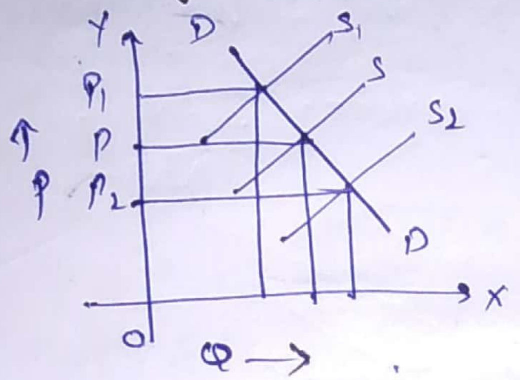


change in demand - No change in supply:

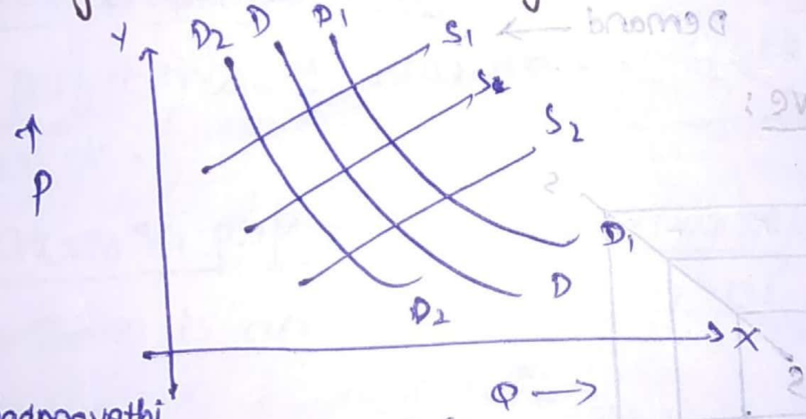
Equilibrium price is as follows



No change in demand - change in supply:



change in demand - change in supply:



Ch. V. Padmavathi
Ch. Balasubrahmanyam.

Monopoly Imperfect competitive Market:

In this markets,

Mono means single

Poly means seller.

Monopoly indicates a single Producer or manufacturer or seller can operate the entire market for his unique product or service. He is "price maker".

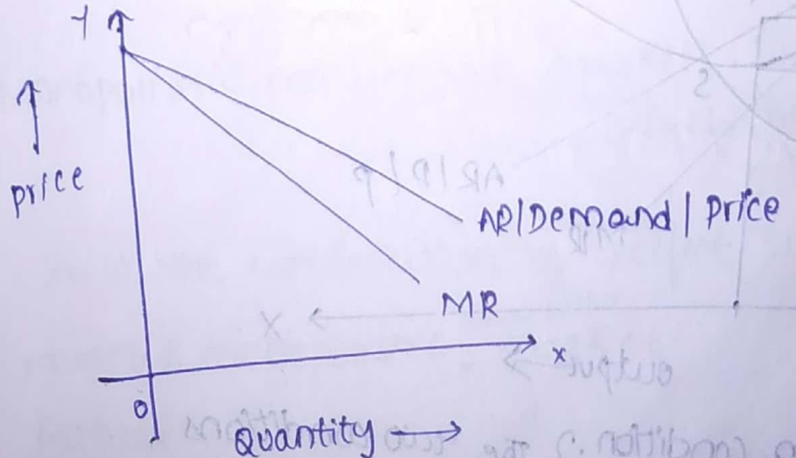
Features in Monopoly Market:

1. A single producer or manufacturer or seller
2. His products have no close substitutes
3. Monopolist is the price maker.
4. prices are very high.
5. There is a chance for exploitation from consumers. 6. contains heterogeneous goods.

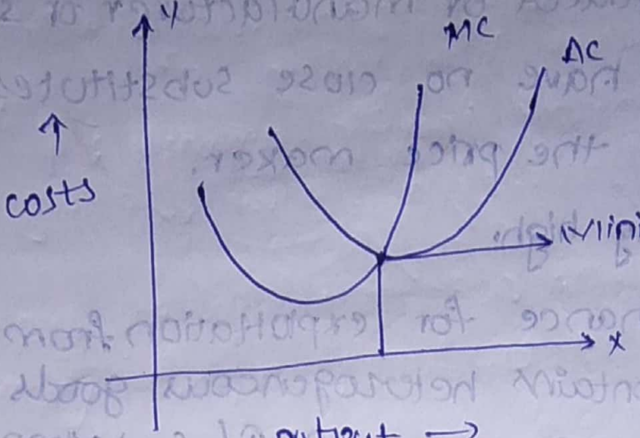
Example: Indian Railways, RBI (Govt Monopoly), specialised doctors, advocates, scientists, etc...

Revenue curves in Monopoly market:

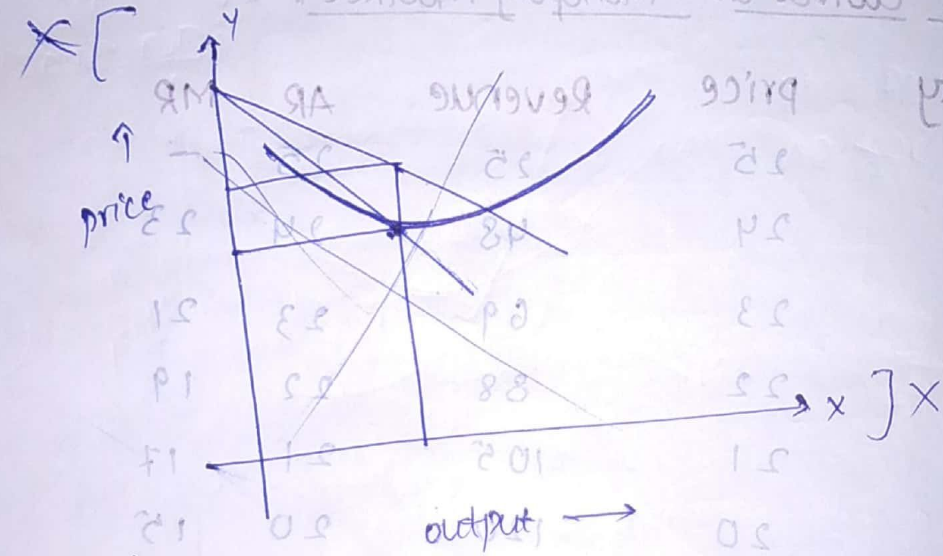
Quantity	price	Revenue	AR	MR
1	25	25	25	–
2	24	48	24	23
3	23	69	23	21
4	22	88	22	19
5	21	105	21	17
6	20	120	20	15
7	19	133	19	13

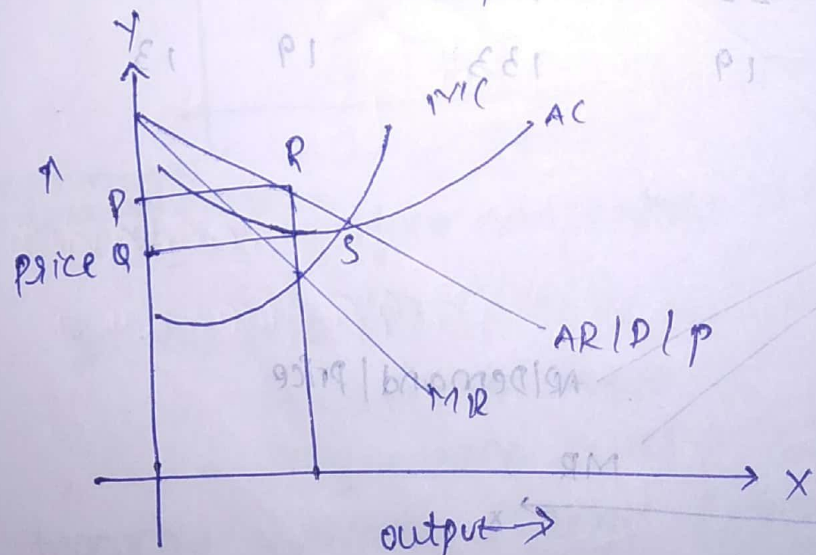


cost curves in Monopoly Market: (AC & MC)



price and output determination in Monopoly market:

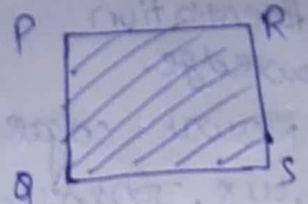




Equilibrium condition.
1) MC = MR
2) AR > AC

The two conditions are essential for getting profits.

3) Profit Area



Monopoly - price discrimination:

By charging different prices for the same product.

Eg: Electric power, Movie tickets

Forms of price discrimination:

1. personal price discriminal
2. Gender based price discrimination
3. location | place | Territorial Price discrimation.
4. Quality based price discrimination
5. Time based price discrimination.
6. usage based price discrimination (wholesale)
7. special services / comforts based ~~place~~ price discrimination.
8. Government services - price discrimination.

Monopolistic competitive market

-E. H. chamberlin &
Joan Robinson.

It is the combination of perfect competitive market & monopolistic competitive market.

Features:

1. large number of buyers & sellers.
2. Free enter and exit
* hetrogeneous goods

3. There is differences in price

4. There is an product differentiation

5. no perfect knowledge.

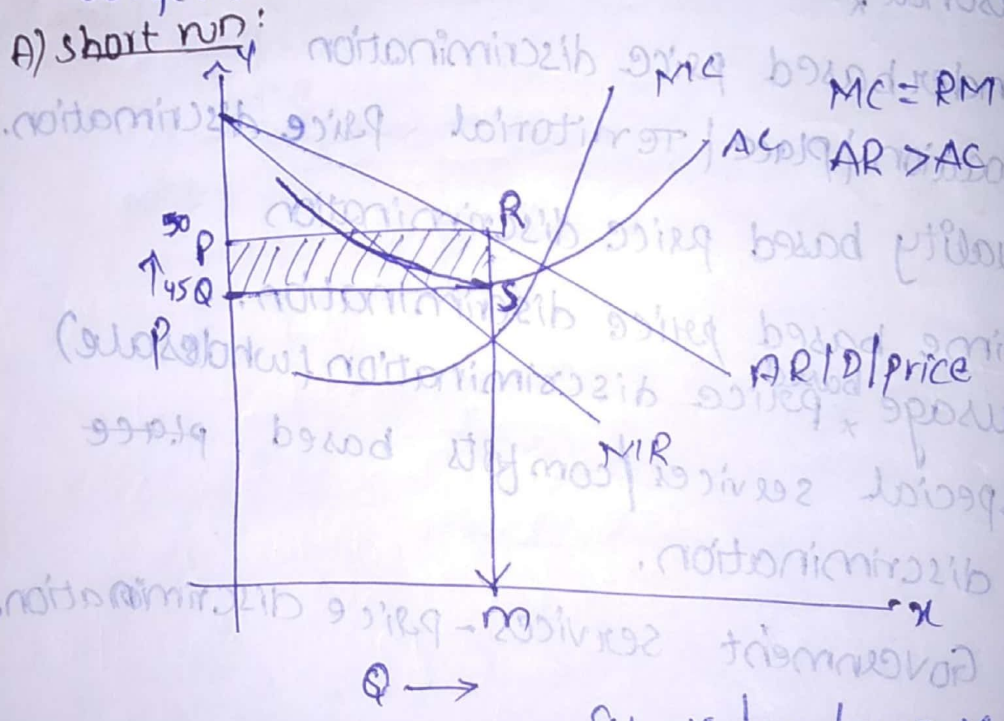
5. Eg:
P : Himalaya Dant kanti Meswak colgate pepsodent
S : Dove, Nivea, santoor, Lux, Johson's baby

* product differentiation describe variations among like quality, colours, taste, features etc..

Price and output :

Price & output determination in monopolistic competetive market.

A) short run :



It is far from Y-axis

A) short run :

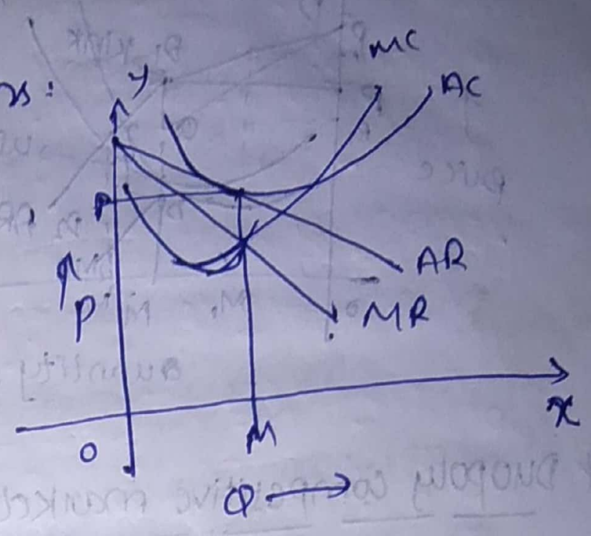
In short run,

(B) Longrun: In long run there are normal profits only

equilibrium conditions:

AR = AC

MC = MR



(*) Oligopoly competitive market:

- paul sweezy

oligo means few.

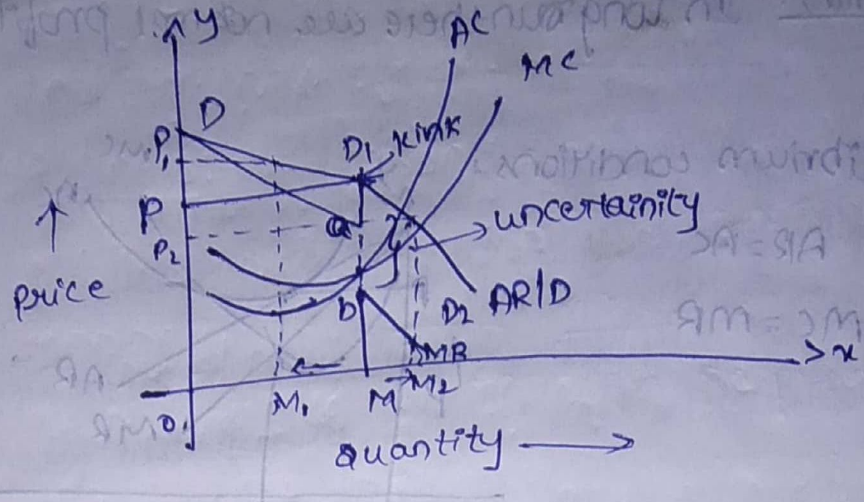
poly means sellers.

* It is introduced by "paul sweezy".

Features of oligopoly market: (Restric to Enter but free Exit)

1. Few sellers
2. Interdependency among the sellers.
3. lack of uniformity among the sellers.
4. There is an price "Rigidity" (upto certain time, it is fixed)
5. The producers gives more importance for advertising.
6. In this market, there is an "kinked demand curve" exists.
   (kinked ↓ Bend / turn)

Price output determination in oligopoly competitive market:



* Duopoly competitive market:

* Pricing strategies (fixation of prices)

Prices are high; Producer is happy and consumer is sad. so, it must maintain an Equilibrium price. this is fixation of prices

* Different pricing strategies / policies:

A) price = cost + profit

1. cost - plus pricing
2. Marginal cost pricing.
3. Target (or) Rate of return price
4. programme pricing

B) Competition - based pricing:

1. Trade Association.

2. Imitative pricing.

3. Turn over pricing. (based on the sales)

4. cyclical pricing

5. odd pricing.

c) pricing based on economic conditions:

1. Administered pricing (By government orders)

2. Dual pricing, no-fee / full-fee

3. price discrimination.

D) other pricing strategies:

1. Skimming price (high price - low price)

2. penetration price (low price - high price).

3. Internet pricing

4. Flat rate price

5. sensitive pricing (ex: 99/- & 101/- ; 9/- & 11/-)

6. priority pricing

7. sealed bid (or) Tender pricing

8. Bundle pricing.