37. Bring out the relationship between AR and MR curves under various price conditions.

Average Revenue

Average revenue is the revenue per unit of the commodity sold. It is calculated by dividing the total revenue by the number of units sold.

$$AR = TR / Q$$

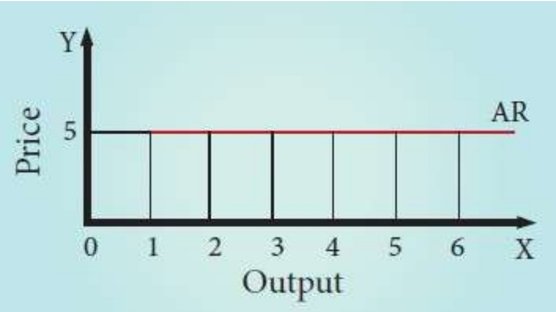
Marginal Revenue

Marginal Revenue is the addition made to the total revenue by selling one more unit of a commodity.

$$MRn = TRn – TRn\text{-}1$$

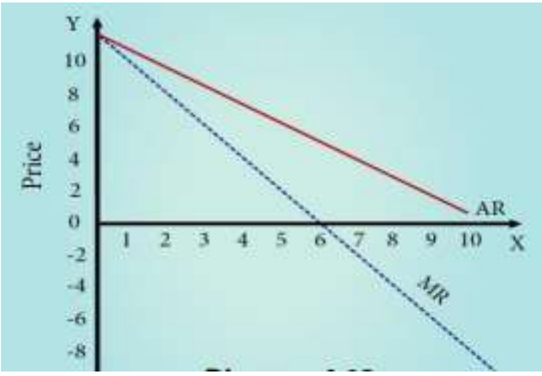
Constant AR and MR (at Fixed Price)

Quantity Sold (Q)	Price (P) ₹	Total Revenue (TR) ₹	Average Revenue (AR) ₹	Marginal Revenue (MR) ₹
1	5	5	5	5
2	5	10	5	5
3	5	15	5	5
4	5	20	5	5
5	5	25	5	5
6	5	30	5	5



Declining AR and MR (at declining Price)

Quantity Sold (Q)	Price (P)/ Average Revenue (AR) ₹	Total Revenue (TR) ₹	Marginal Revenue (MR) ₹
1	10	10	-
2	9	18	8
3	8	24	6
4	7	28	4
5	6	30	2
6	5	30	0
7	4	28	-2
8	3	24	-4
9	2	18	-6
10	1	10	-8



Explanation

1. If a firm is able to sell additional units at the same price then AR and MR will be constant and equal.
2. If the firm is able to sell additional units only by reducing the price, then both AR and MR will fall and be different.

Chapter 5

II. Very Short Answer Questions:

21. Define Market.

In Economics, the term 'market' refers to a system of exchange between the buyers and the sellers of a commodity, directly or indirectly.

22. Who is price-taker?

1. A **price taker** is a seller who has no control to fix **prices** for a good or service.
2. A price taker simply has to accept the market price.

23. Point out the essential features of pure competition.

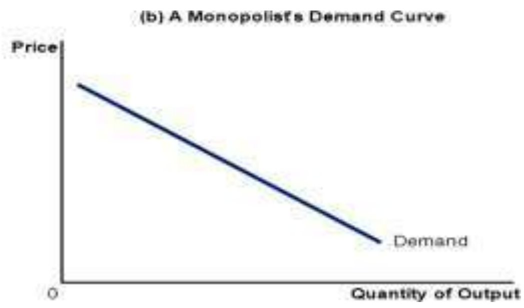
a. Large Number of Buyers and Sellers
b. Homogeneous Product and Uniform Price
c. Free Entry and Exit
d. Absence Of Transport Cost

24. What is selling cost?

Selling costs refer to those expenses which are incurred for popularizing the differentiated product and increasing the demand for it.

25. Draw demand curve of a firm for the following:

a) Perfect Competition　　　　b) Monopoly



26. Mention any two types of price discrimination

(i) Personal – Different prices are charged for different individuals *(Ex:Railways Ticket)*

(ii) Geographical - Different prices are charged at different places for the same product *(Ex: same book sold in different countries at different prices)*

27. Define "Excess capacity".

A monopolistic firm produces deliberately output which is less than the optimum output that is the output corresponding to the minimum average cost.

III. Short Answer Questions:

28. What are the features of a market?

1. Buyers and sellers of a commodity or a service

2. A commodity to be bought and sold

3. Price agreeable to buyer and seller

4. Direct or indirect exchange.

29. Specify the nature of entry of competitors in perfect competition and monopoly.

Nature of Entry of competitor	
Perfect Competition	**Monopoly**
It is possible for the very efficient producer, producing the product at a very low cost, to earn super normal profits. Attracted by such a profit, new firms enter into the industry.	There is strict barrier for entry of any new firm;

30. Describe the degrees of price discrimination.

According to A.C.Pigou, there are three degrees of price discrimination.

(i) First degree price discrimination

A monopolist charges the maximum price that a buyer is willing to pay. Example: Auctions

(ii) Second degree price discrimination

Under this degree, buyers are charged prices in such a way that a part of their consumer's surplus is taken away by the sellers. Example: Cinema theatres .

(iii) Third degree price discrimination

The monopolist splits the entire market into a few sub-market and charges different price in each sub-market. Example : Railways Ticket

31. State the meaning of selling cost with an example.

1. It was Chamberlin who introduced the analysis of selling costs.
2. Selling costs play the key role in monopolistic competition. The firms have to compete to promote their sale by spending on advertisements and publicity ads to the demand of the product.
3. In selling costs we include the salaries of sales persons, allowances to retailers to display the products etc. besides the advertisements.

32. Mention the similarities between perfect competition and monopolistic competition.

s.no	Basis of Similarities	Perfect Competition	Monopolistic Competition
1	**Number of Producers/ sellers**	In numerable	Large
2	**Entry / Exit**	Free	Free
3	**Profit**	Abnormal profit in short- run, Normal profit in long-run	Abnormal profit in short-run, Normal profit in long run
4	**Quantity**	Very large	Substantial

33. Differentiate between 'firm' and 'industry'.

	Firm	Industry
Meaning	A firm refers to a single production unit in an industry	An industry refers to a group of firms
Production	Producing a large or a small quantum of a commodity or service	Producing the same product or service in an economy.
Example	A single cement firm	Cement Industry (group of firms)

34. State the features of duopoly.

1. Each seller is fully aware of his rival's motive and actions.
2. Both sellers may collude (they agree on all matters regarding the sale of the commodity).
3. They may enter into cut-throat competition.
4. They fix the price for their product with a view to maximising their profit.

IV. Long Answer Questions:

35. Bring out the features of perfect competition.

Meaning of Perfect Competition

Perfect Competition market is that type of market in which the number of buyers and sellers is very large, all are engaged in buying and selling a homogenous product at uniform price.

Features

1. **Large Number of Buyers and Sellers**

   The term, 'large number of sellers' implies that share of each individual seller is a very, very small quantum of a product.

2. **Homogeneous Product and Uniform Price**

   All the units of the product are identical (ie) of the same size, shape, colour, quality etc. Therefore, a uniform price prevails in the market.

3. **Free Entry and Exit**

   Efficient producer producing the product at a very low cost, to earn super normal profits. Attracted by such a profit, new firms enter into the industry.

4. **Absence Of Transport Cost**

   The prevalence of the uniform price is also due to the absence of the transport cost.

5. **Perfect Knowledge of the Market**

   All buyers and sellers have a thorough knowledge of the quality of the product, prevailing price etc.

6. **No Government Intervention**

   There is no government regulation on supply of raw materials, and in the determination of price etc.

35. How price and output are determined under the perfect competition?

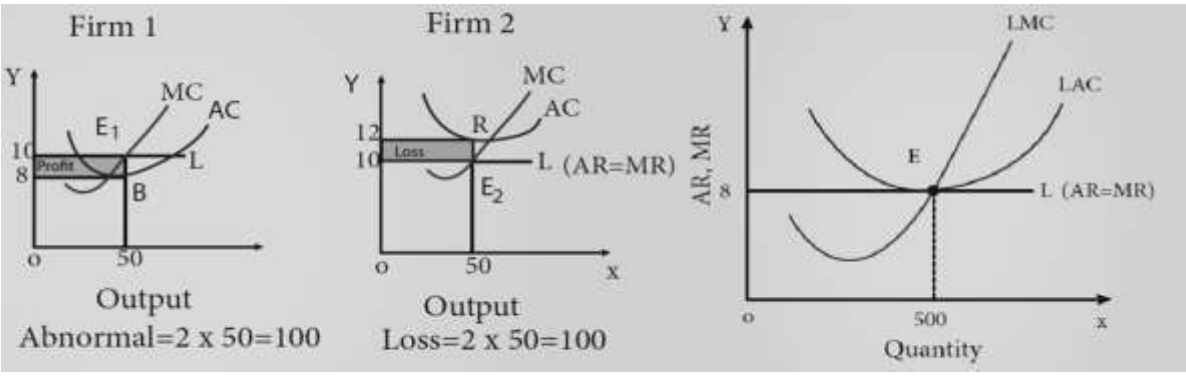
Meaning of Perfect Competition

Perfect Competition market is that type of market in which the number of buyers and sellers is very large, all are engaged in buying and selling a homogenous product at uniform price.

Important Features

1. Large Number of Buyers and Sellers
3. Homogeneous Product and Uniform Price
2. Free Entry and Exit
4. Absence Of Transport Cost

Price & Output Determination-Perfect Competition during Short Run



AR – Average Revenue	AC – Average Cost
MR – Marginal Revenue	MC – Marginal Cost

The firms under Perfect Competition take the price (10) from the industry and start adjusting their quantities produced.

For example Qd= 100 – 5P and Qs=5P. At equilibrium Qd=Qs. Therefore 100-5P=5P.

100 = 10P; 100/10 = P Qd = demand P = 10 P = Price

Qd = 100-5(10) Qs = Supply 100-50 = 50

Qs = 5(10)=50

Therefore 50 = 50

Its total revenue is 50X10=500. Its total cost is 50X12=600. Therefore, its total loss is 600-500=100.

Price = AR=MR = Minimum AC

37. Describe the features oligopoly.

1. Few large firms

Very few big firms own the major control of the whole market by producing major portion of the market demand.

2. Interdependence among firms

The price and quality decisions of a particular firm are dependent on the price and quality decisions of the rival firms.

3. Group behaviuor

The firms under oligopoly realise the importance of mutual co-operation.

4. Advertisement cost

The oligopolist could raise sales either by advertising or improving the quality of the product.

5. Nature of product

Perfect oligopoly means homogeneous products and imperfect oligopoly deals with heterogeneous products.

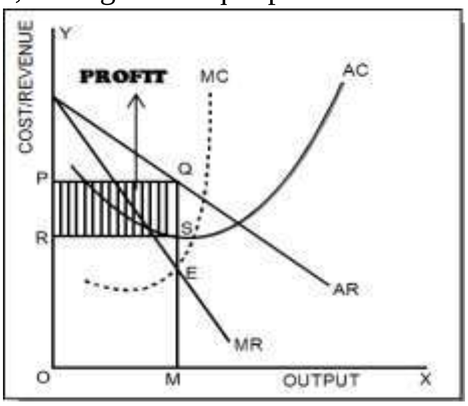
6. Price rigidity

The oligopolistic firms do not change their prices due to the fear of rivals' reaction.

38. Illustrate price and output determination under Monopoly.

Meaning

Monopoly is a market structure characterized by a single seller, selling the unique product with the restriction for a new firm to enter the market.



Features of Monopoly

1. There is a single producer / seller of a product;
2. The product of a monopolist is unique and has no close substitute;
3. There is strict barrier for entry of any new firm;
4. The monopolist is a price-maker

Price & Output Determination Under Monopoly

Explanation

1. The Diagram shows that MC cuts MR at E to give equilibrium output as OM.

2. At OM, the price charged is OP (we find this by extending line EM till it touches AR or demand curve).
3. Also at OM, the cost per unit is MS.
4. Therefore, profit per unit is SQ or total profit is PQRS.

Total profit = (Average Revenue – Average Cost) X Total output

39. Explain price and output determined under monopolistic competition with help of diagram.

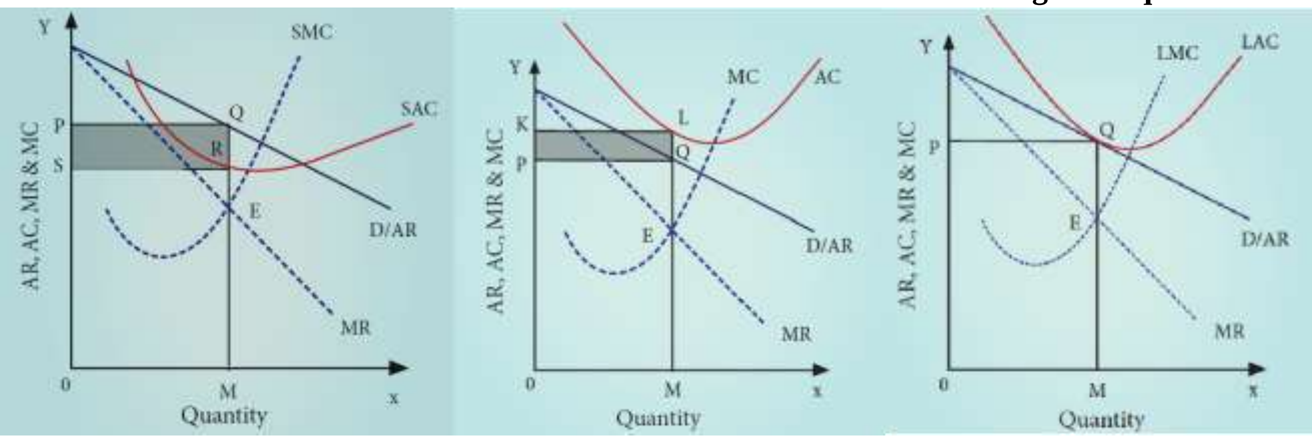
Meaning

Monopolistic competition refers to a market situation where there are many firms selling a differentiated product.

Important Features

1. Large number of buyers and many sellers.
2. Firms produce differentiated products.
3. Firms compete with each other by incurring selling cost
4. Non – price competition

Short run Profit **Short run Loss** **Long run Equilibrium**



Explanation

1. The profit maximisation is achieved when MC=MR.
2. Total profit is 'PQRS'. This is super normal profit under short-run.
3. Total loss is 'PQLK'. This firm incurs loss in the short run.
4. In the long run AR curve is more elastic
5. At E' point = AR=AC and MC=MR. It means that a firm earns normal profit. AR is tangent to the Long Run Average Cost (LAC) curve at point 'Q'.

Chapter 6

II. Very Short Answer Questions:

21. What is meant by distribution?

- Distribution means division of income among the four factors of production.
- Distribution is given in terms of rent to landlords, wage to labour, interest to capital and profit to entrepreneurs.

22. Mention the types of distribution.

1. **Personal Distribution:** Personal Distribution is the distribution of national income among the individuals.
2. **Functional Distribution:** Functional Distribution means the distribution of income among the four factors of production.

