

UNIT III

INTRODUCTION TO MARKETS



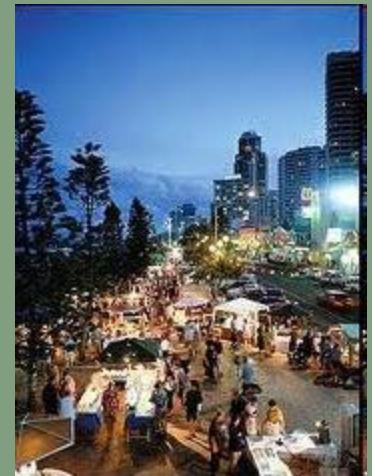


UNIT III TOPICS

1. Market structure
2. Types of competition
3. Features of Perfect competition
4. Monopoly
5. Monopolistic Competition
6. Pricing Methods and strategies

What is a Market?

Market is defined as a place or point at which buyers and sellers negotiate their exchange of well-defined products or services.





MARKET

Market is any area over which buyers and sellers are in close touch with one another, either directly or through dealers, that the price obtainable in one part of the market affects the prices paid in other parts. - Benham



MARKET CLASSIFICATION

- Classification on the basis of Area covered or location
- Classification on the basis of time &
- Classification on the basis of degree of competition



Classification on the basis of Area covered or location

- Local market
- National market
- International market



Classification on the basis of time

- Very short period market
- Short period market
- Long period market



Classification on the basis of degree of competition

- Perfect market
- Imperfect market

Imperfect market take several forms

- Monopoly
- Duopoly
- Oligopoly
- Monopolistic competition



Types of competition

Competition is of two types

- Perfect competition
- Imperfect competition



PERFECT COMPETITION

A market structure in which all firms in an industry are price takers and in which there is freedom of entry into and exit from the industry is called Perfect Competition.

The market with perfect competition condition is known as perfect market.

FEATURES OF PERFECT MARKET

- ➡ Large number of buyers and sellers
- ➡ Price taker
- ➡ Homogeneous products
- ➡ The firms are free to enter or leave the industry
- ➡ Perfect Mobility of factors of production
- ➡ Perfect knowledge
- ➡ No publicity cost
- ➡ Uniform prices
- ➡ AR curve is parallel to X axis



IMPERFECT COMPETITION

A market structure in which all the firms in the industry are price makers and in which there lies restrictions to enter in to the industry is called Imperfect Competition.

The market with imperfect competition condition is known as imperfect market



FEATURES OF IMPERFECT MARKET

- Sellers and buyers
- Nature of commodity
- No uniform prices (price discrimination)
- Entry is restricted
- No perfect knowledge
- Price maker
- Publicity cost
- AR curve is downward sloping [MR curve is always below AR curve]



FEATURES OF MONOPOLY

- Single seller & large number of buyers
- No close substitutes
- Entry restricted
- Price discrimination
- AR curve is downward sloping from left to right
- In monopoly firm & industry are one and same. i.e., single firm represents the whole industry.



FEATURES OF MONOPOLISTIC COMPETITION

- In this market many firms produce differentiated products. (e.g. Anacin, Dispirin, Saridon)
- Goods produced are close substitutes to each other
- No restriction to enter in to the market



PRICING

Pricing is not an exact science, more often, are done by trial & error.

Pricing is an important exercise, Under pricing will result in losses and over pricing will make the customers run away.

To determine price in a scientific manner it is necessary to understand pricing methods & procedures.



PRICING OBJECTIVES

- Maximize profits
- Increase sales
- Increase market share
- Satisfy customers
- Meet the competition



PRICING METHODS

✓ Cost Based Pricing Methods

- Cost plus pricing (full cost or mark up)
- Marginal cost pricing (break even or target profit pricing)

✓ Competition Oriented Pricing

- Sealed bid pricing
- Going rate pricing

✓ Demand Oriented Pricing

- Price Discrimination (differential pricing)
- Perceived value pricing



PRICING METHODS

✓ Strategy Based Pricing Methods

- Market Skimming
- Market Penetration
- Two part pricing
- Block pricing
- Commodity Bundling
- Peak load pricing
- Cross Subsidization
- Transfer pricing (internal pricing technique)
- Limit pricing

