Unit-3

Introduction to Markets and New Economic Environment

1.Types markets

Market:-generally market means a place where commodities are bought (buy) and sold. However, in economics the term market does not refer to a particular place as such as but it refers to a market for a commodity or commodities. Thus, in economics, an arrangements were by buyers and sellers come in close contact with each other directly or indirect to sell and buy goods is described as market.

The term market refers to the relationship between buyers and sellers to carry on transactions in any commodity or service.

Classification of markets: Marketers may be classified on the basis of different criteria, such as geographical space or area, time element and the nature of competition.

1) Perfect competition market
2) Imperfect competition market

1) Perfect competition market:-Perfect competition refers to a market structure where competition among the sellers and buyers prevails in its most perfect form. It is a situation where the market is characterized by homogenous product, large number of buyers and sellers with free entry/ exit conditions and perfect information about products etc. in a perfectly competitive market, a single market price prevails for the commodity, which is determined by the forces of total demand and total supply in the market.

2) Imperfect competition market: - The market which exhibits the characteristics such as market concentration or product differentiation or restrictions on the entry into the market is called perfect market. The following are different categories of imperfect competition markets.

1. Monopoly:-Monopoly is a market situation in which a single firm exercises complete control over the supply of commodity which does not have substitutes. The monopolists are the only firm. It is the whole industry. The monopolist, therefore, has theoretically unlimited power over the price as well as the output of his product.

2. Duopoly: - It is situation is which there are only two firms producing either a standardized commodity or two slightly differentiated products.

3. Oligopoly: - It is situation in which the number of firms producing and selling a commodity is small. The number is so small that each firm produces and sells such a large part of the total output that it can influence the price by its independent action oligopoly are two varieties pure oligopolies exist when all firms produce homogeneous products. Differentiated oligopolies exist when the product of each firm is different.

4. Monopolistic competition:-Monopolistic competition is the leading type of imperfect competition in monopolistic competition the number for firms is large, but each firm producers a differentiated product. Products are not standardized. The product of each firm is a class by itself. Each firm enjoys monopoly power so far as the production and sale of that product is concerned. The differences in products may arise because of differences in quality, color, size, style, brand name, packing, advertising etc.

2. Features of perfect competition market

Perfect competition market:-Perfect competition refers to a market structure where competition among the sellers and buyers prevails in its most perfect form. It is a situation where the market is characterized by homogenous product, large number of buyers and sellers with free entry/ exit conditions and perfect information about products etc. in a perfectly competitive market, a single market price prevails for the commodity, which is determined by the forces of total demand and total supply in the market.

Features of perfect competition market:

1. Large number of sellers: - A perfect competition market structure is basically formed by a large number of actual and potential firms or sellers. The individual seller or firms supply is just a faction of the total market supply; consequently, any variation in individual supply has a negligible effect on the total supply. Thus an individual firm cannot exert any influence on the ruling market price.

2. Large number of buyers: - There are a very large number of actual and potential buyers. Each individual buyers demand constitutes just a fraction of the total market demand. Hence, no individual buyers are in a position to exert his influence on the prevailing price of the production. From the above two conditions, it follows that though an individual buyer or seller cannot affect the price. All firms together or all buyers together only can change the market supply or demand as a whole.

3. Homogenous products: - The commodity supplied by each firm in a perfect competitive market is homogeneous it means, the product of each seller is virtually standardized. i.e. there is no identification of the product of each seller as there is no product differentiation. Since each, firm produces an identical product; their products can be reading substituted for each other. Hence the buyer has no specific preference to buy from a particular seller is a matter of chance and not of choice on account of the homogeneity of goods. Moreover, because of the homogeneity of product, an individual firm cannot dare to raise its price independently as it might lose all of its market to its competitors.

4. Free entry and exit of firms: - There is free of entry new firms into the market. There are no legal, technological, economic, financial or any other barriers to their entry. Similarly, existing, firms are free to quit the market. Thus, the mobility of firms ensures that when place there is scope in the business, new entry will take place and competition will remain always staff. Due to the natural stiffness of competition, in efficient firms would have to eventually quit the industry.

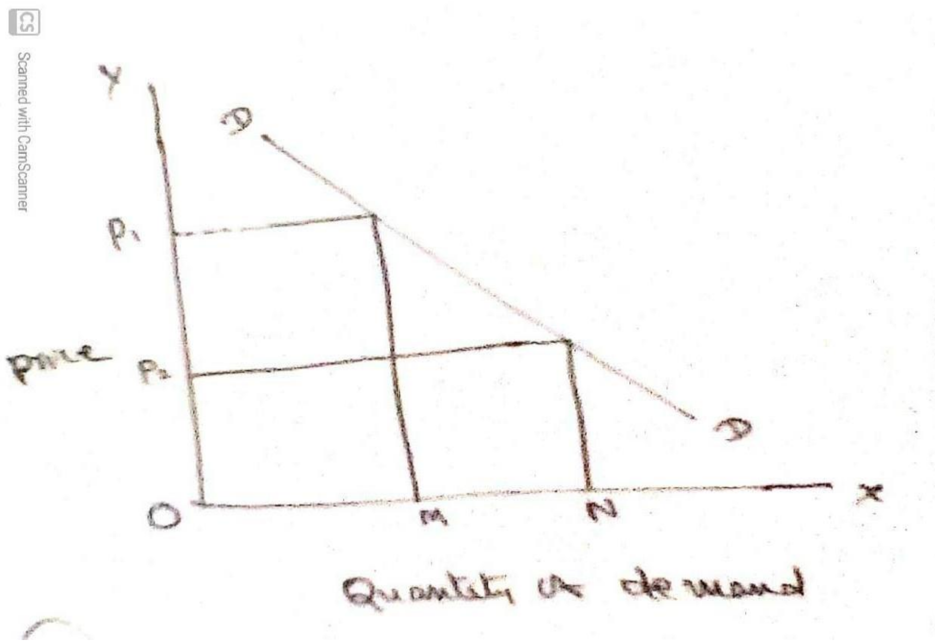
5. Perfect knowledge of market conditions:-Perfect competition requires that all the budgets and sellers must process perfect knowledge about the existing market conditions especially regarding the market price, quantities and sources of supply. When there is such perfect knowledge no buyer could be charged a price different from the market price. Similarly, no seller would unnecessary lose by selling at a lower price them the prevailing market price. This way, perfect knowledge ensures transactions at a uniform price.

6. Government non- intervention:-Perfect completion also implies that there Is no government intervention in the working of market economy. That is to say, there are no tariffs, subsidies, rationing of goods, and control on supply of raw material, licensing policy or other government interference, government non intervention is essential inter free entry of firms and for automatic adjustment of demand and supply through the market mechanism.

7. Absence of transport costs: - It s essential that competitive position of no firm is adversely affected by the transport cost differences. It is thus assumed that there is absence is transport cost faced by all, as all firms are supposed to be equally far away from the market in all respects

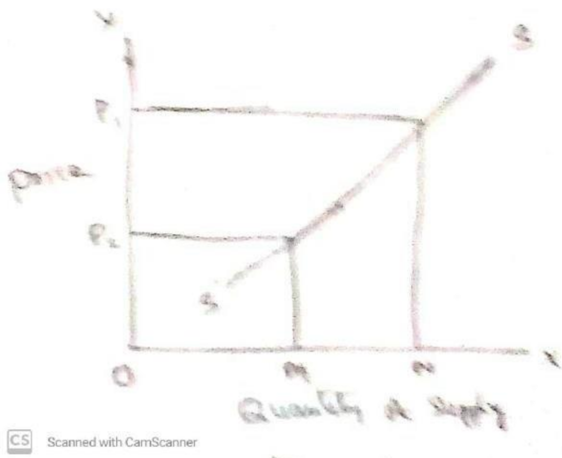
Price and output determination under perfect competition:

1. Demand of the commodity or goods:-A commodity is demanded by consumers because of its utility. They demand more quality at lower price and less quantity at higher price. Thus, the quality of demanded is different at different prices. A demand curve can be drawn with the help of these quantities. It slopes downwards from left to right. It can be explained with the help of the following diagrams.



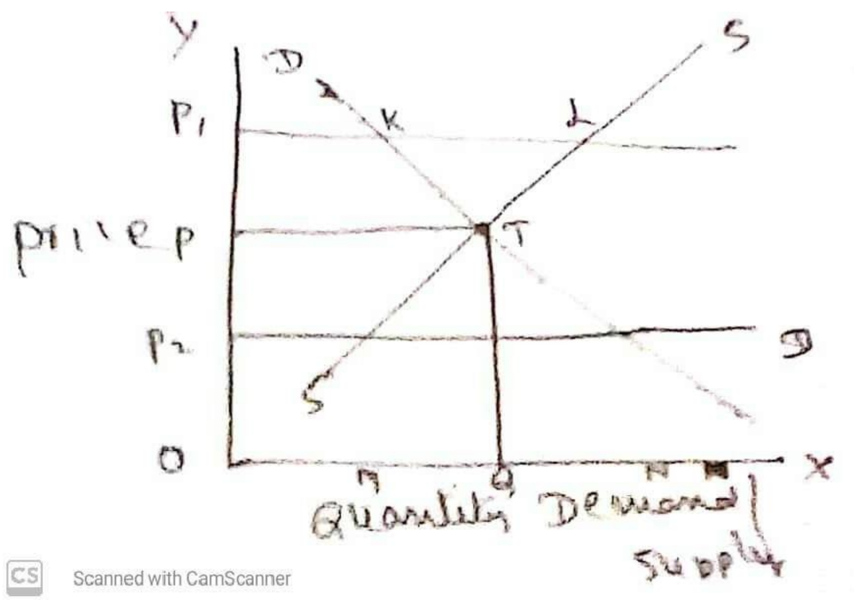
Makes it clear that when price is OP, demand is only OM. When price decrease to OP2 demand increases to ON.

2. Supply of the commodity: - A commodity is supplied by its production because they get revenue from selling it. Supply increases at a higher price and decrease at a lower price. Thus, the quantity supplied at different price levels is different. A curve can be drawn with the help of these quantities. It slops upwards from left to right. It can be explained with the help of figure.



Makes it clear that when price is OP2 quantity of supply OM when price increases to OP1 supply increases to ON.

3. Determination of price: - The demand and supply curves slope in opposite direction price of a commodity is determined at the point at which these curve intersect each other. This is called equilibrium price and the quantity of sales and explained with the help of a diagram.



Makes it clear that both the demand and supply curves intersect each other at the point T. at this point the price of commodity will be OP and quantity of commodity will be OQ, OP will be the equilibrium price and OQ will be the equilibrium quantity. If the price of commodity increase to OP1, demand of the commodity will be P1, K and the supply of commodity will be P1, L in this situation KL will be the additional supply or surplus supply for which there will be no demand. Due to the lack of demand. Price will start to fall and it will gradually come down to OP on the contrary. If the price of commodity falls to OP2 demand will be increase to P2N and the supply will decrease to P2M. MN will be the excess demand or surplus demand for which there will be no supply. Due to the lack of supply. The price will gradually increase to OP.

3. Features of Monopoly:

The word monopoly is made up of two syllables mono and poly mono means single while poly implies selling thus monopoly is a form of market organization in which there is only one seller of the commodity. There are no close substitutes for the commodity sold by the seller. Pure monopoly is a market situation in which a single firm sells a product for which there is no good substitute.

Features or characteristics of a monopoly:

1. Single person or a firm: - the total supply of the commodity is controlled by a single person or a firm. There will be no competition for monopoly firm the monopolist firm is the only firm in the whole industry.

2. No close substitutes: - the product sold by the monopolist shall not have closely competing substitutes even if price of monopoly product increases people will not go in for substitute

3. Large number of buyers:-under monopoly there may be a large number of buyers in the market who compete among themselves.

4. Price maker:-since the monopolist controls the whole supply of a commodity he is a price maker. He can alter the price.

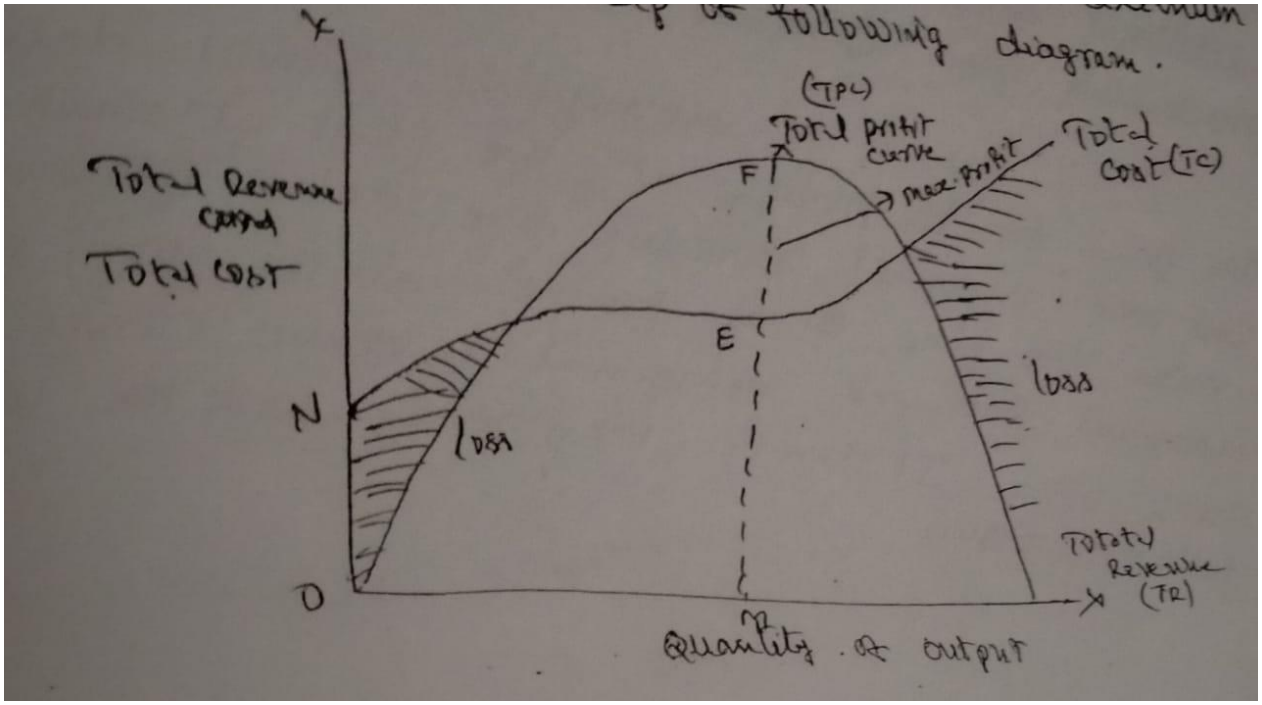
5. Supply and price: - the monopolist can fix either the supply or the price. He cannot fix both. If he charges a very high price he can sell a small amount. If he wants to sell more he has to charge a low price. He cannot sell much as he wishes for any price he pleases.

Price and output determination under monopoly:

Main objective of a monopolist is to maximize his profit. A monopolist is always interested in maximizing his total profit and not the profit per unit. Since the monopolist is the only seller of commodity in the market. Any variation in his sales affect the supply of the commodity and hence its price in the market. Thus a monopolist is a price marker and not a price taker as shown below in figure the demand curve (or the average revenue curve) facing a monopolist in negatively sloped. This means that he can sell more of the commodity only at a lower price.

1. **Total revenue and total cost curve method**:

A monopolist seeks to maximize his profit price a determined at the point at which the difference between total revenue (TR) and total cost (TC)is the maximum it can be explained with the help of following diagram.

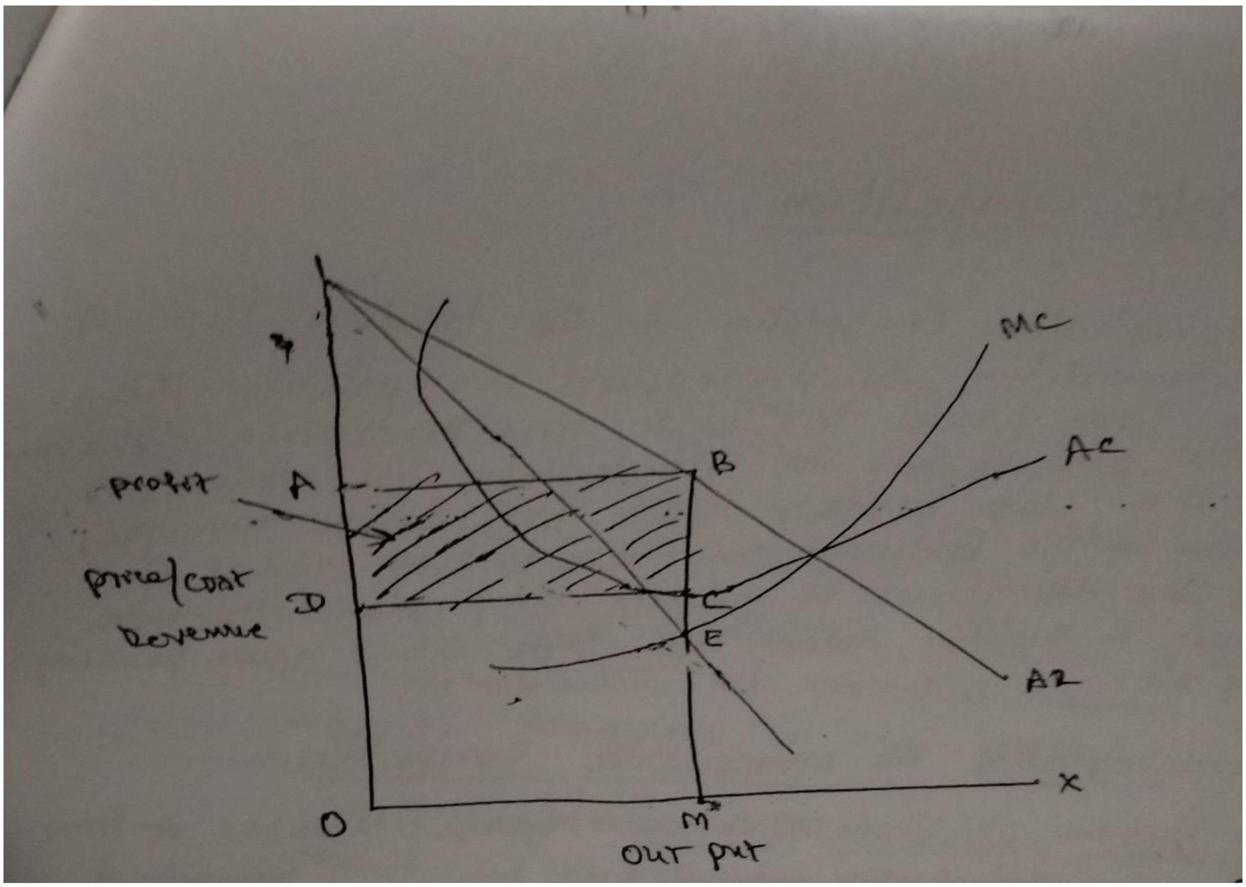


In the above figure. TC is total cost curve based upon the laws of returns TR is total revenue curve moving upwards at a declining rate. It starts from the point of origin O which implies that if the production is zero. Total revenue will also be zero and total revenue will go on increasing on an increase in production. Hence TR curve is slopping upwards from left to right TC curve starts from the point N and not from the point of origin O hence if the production is zero the firm will have to incur fixed cost equal to ON .difference between total revenue and total cost is the profit (TR-TC=profit) profit is zero at the point at which total revenue and total cost curves intersect each other TPC is the total profit curve the highest point of which indicates maximum profit for the firm. At this point the quantity of production is OM and the amount of profit is EF. Total profit of firm will decrease, if the quantity of production is increased (or) decreased from the point OM.

2) Marginal cost and marginal revenue curve method:

A Monopolist seeks to earn maximum profit. A monopolist firm is in the situation of equilibrium. When its profit is maximum. A monopolist firm is said to be in equilibrium. When its marginal cost and marginal revenue are equal (MR-MC).According to knight. In order to maximize his profit. A Monopolist should go on increasing his production and sales from zero unit will the increase in total revenue on selling one additional unit and the increase in total cost on producing an additional unit are equal.

Thus, a monopolist should determine the price for his product at the point at which marginal cost and marginal revenue are equal. He should determine the price of his product at the point at which marginal cost and marginal revenue curves intersects each other. It can be explained with the help of following figure



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Marginal cost and Marginal revenue curve method:

In the above diagram AC is average cost curve.MC is marginal cost curve.AR is average revenue curve.MC and MR curves intersects each other at point E. Thus E is the point of equilibrium a perpendicular is drawn from the point E which intersects base line on the point M. AC line on point C and AR line on point B. OM is the quantity of producing and selling the quantity OM at the price BM, a monopolist will earn a profit equal to the area ABCD which is the maximum profit.

Types of Monopoly: - Monopoly may be classified into various types. The different types of monopolies are explained below.

1. Legal monopoly: - if monopoly arises on account of legal support or as a matter of legal privilege. It is called legal monopolies patent rights, special brands, trade names, copy right etc.

2. Government monopoly: - sometimes the government will take the responsibility of supplying a commodity and avoid private interference. Ex. Water, electricity these monopolies, created to satisfy social wants, are formed on social considerations .these are also called social monopolies.

3. Private monopoly:-if the total supply of goods in produced by a single private person or firms it is called private monopoly. Hindustan lever Ltd. Is having the monopoly power to produce Lux soap.

4. Limited monopoly:-if the monopolist is having limited power in fixing the price of his product. It is called as limited monopoly it may be due to the fear of distant substitutes or government intervention or the entry of rivals firms.

5. Unlimited monopoly:-if the monopolist is having unlimited power in fixing the price of his goods or service. It is called unlimited monopolies a doctor in a village

6. Single price monopoly: - when the monopolist charges same price for all units of his product. It is called single monopoly. Ex Tata company charges the same price to all the Tata Indic cars of the same model

7. Discrimination monopoly:-when a monopolist charges different prices to different consumers for the same product. It is called discriminating monopoly. A doctor may take Rs 100 from a rich man and only Rs 20 from a poor man for the same treatment.

8. Nature monopoly:-some time monopoly may arise due to scarcity of natural resources. Nature provides raw material in some places only. The owner of the place will become monopolist for ex. Diamond mines in South Africa.

4) Characteristics of monopolistic competition

Monopolistic competition is the leading type of imperfect competition. In monopolistic competition the number for firms is large but each firm produces a differentiated product. Products are not standardized the product of each firm is a class by itself. Each firm enjoys monopoly power so for as the production and sale of that product is concerned. The differences in products may arise because of differences in quality color, size, style, brand name packing advertising etc.

1. Large number of firms or sellers:-large number of firms or sellers operates in the market and the total market is shared by each individual firm.

2. Large number of buyers:-there are a large number of buyers in the market. But the buyers have their own brand preferences. Each seller has to plan various incentive schemes to retain the customers who patronize his product.

3. Product differentiation:-the products of different firms are differentiated on the basis of brands for example the various firms produce different brands of tooth paste such as Colgate. Close-up etc.the product differentiation creates monopolistic element in the market.

4. Selling costs:-each firm in order to promote sale incurs expenditure on advertisement and publicity. Hence the selling costs and the demand can be increased.

5. Competition:-monopolistic competition has two aspect 1.price competition ie. Sellers compete in price determination and 2. Non-price competition i.e. sellers competes through product improvements and advertising and sales promotion efforts.

6. Transport cost:-under monopolistic competition the producers and consumers do not have direct link because of large number of products and product differentiation. Hence the transport of goods. Commodities and services become inevitable. This necessitates the inclusion of transport cost in the price.

7. Free entry and exit: - under monopolistic competition the producers and consumers do not have direct link because of large number of products and product differentiation. Hence the transport of goods. Commodities and services become inevitable this necessitates the inclusion of transport cost in the price.

8. Imperfect knowledge:-imperfect knowledge about the product leads to monopolistic competition .if the buyers are fully aware of the quality of the product they cannot be influenced much by advertisement or other sales promotion techniques for example. Effective dealer service backed by advertisement helped popularization of certain brands though the quality of almost all the available in the market.

5. Distinction between perfect competition and monopoly.

1. Perfect Market: - Perfect competition refers to a market structure where competition among the sellers and buyers prevails in its most perfect form. It is a situation where the market is characterized by homogenous product, large number of buyers and sellers with free entry/ exit conditions and perfect information about products etc

2. Monopoly: - Monopoly is a market situation in which a single firm exercises complete control over the supply of commodity which does not have substitutes. The monopolists are the only firm. It is the whole industry. The monopolist is the only firm. It is the whole industry. The monopolist therefore has theoretically unlimited power over the [rice as well as the output of his product

Basis of difference	Perfect competition	Monopoly
Number of sellers	many sellers	Only one
Control over	Individual seller has	Monopolist

Market supply	No control over the Market supply	Has control Over market Supply
Nature of the Products	Homogenous of Goods or products	No close Substitute s
Price taker and Price maker	Under perfect Competition ,affirm Is the price-taker	Under monopoly, the Firm is the Price-maker
Fixation of output And price	Supply and demand In market	A monopolist.
Entry of firm	Market entry is free And easy	Entry is not Free and easy
Charge of prices	Price are uniformly To all the buyers	Different prices Charged

6. Pricing methods and strategies:

Price is known by a variety of names in different sectors of the economy. For example, in the transport sector it is known as fees in real estate, it is rent and in certain services. It is known as charge Ex, repairing charge). Price and cost are sometimes used interchangeably in general terms. Price is the exchange value of a commodity (goods) or service. In other words, price is the amount of money charged by a marketer for his product or service. It is the money value of a product. The following are some of different methods of pricing.

1. Cost oriented pricing methods
2. Competition oriented pricing methods
3. Strategy based pricing method.

1. Cost oriented pricing methods: - The prices here are determined on the basis of costs. These methods are divided as following types.

1. Cost plus pricing: - This is also called as full cost or markup pricing. In this method the price is set to cover costs (material, labour, overhead est.) and predetermined percentage of profit. This method is suitable in the industry where the cost keep fluctuating from time to time. Eg. Retail shops, departmental stores.

2. Target pricing: - It is also called as pricing for a rate of return. In this method, the company operates with a particular target profit in mind. The firms determine standard costs at standard volume and add the margin.

3. Marginal cost pricing: - In the above the methods, price is based on total costs i.e. fixed and variable costs. Under margined cost pricing method, fixed costs are ignored and prices are determined on the basis of marginal cost. The firm takes into consideration only those costs which are directly attributable to the output of a specific product.

2. Competition oriented pricing methods: - as here the prices are organized on the basis of the competitor's price.

1. Going rate pricing: - Here the firm adjusts its own price policy to the general pricing structure in the industry. The price charged by the firm is relating with the price charged in the industry. Ex. Steel industry, prices of iron.

The price of the product is quoted depending upon the price of the market. Normally the market leaders keep announcing the prevailing prices at a given time based on the demand and supply of the product.

2. Customary prices: - Prices of certain goods become more or less fixed, not by planned action by the seller but as a result of their having prevailed for a considerable period of time. For such goods, changes in costs are usually reflected in changes in quality or quantity only when the costs changes the customary price of these goods are changed also customary prices may not change even. When products are changed. Ex. The new model of an electric fan may be priced same as that of the discounted model.

3. Sealed bid pricing: - This method of pricing is quite popular in tender and controls. Here the prospective buyers or sellers are asked to quote their prices in a sealed cover. All the covers are opened at a schedule date and time in the presence of all the bidders. The buyer who quotes the higher or presence of all the bidders. The buyer who quotes the higher or the seller who quotes the lowest price is awarded the contract.

3. Strategy based pricing method.

1. Market skimming: - When the product is introduced for first time in the market, the company follows this method. Under this method, the company fixes a very high price for the product. The main idea is to change the customer's maximum possible. This strategy is mostly found in case of technology products. When Sony introduces a particular TV model it fixes a very high price initially. As the time passes by the price comes down and more people can afford to buy.

2. Market penetration:-This is exactly opposite to the market skimming method. Here the price of the product is fixed so low that the company can increase its market share. The company attains profits with increasing volumes and increase in the market share. More often the companies believe that it is necessary to dominate the market in the long-run than making profits in the short run. This method is more suitable where market is highly price- sensitive in such a case, a low price stimulates more rapid growth. It will be more appropriate in cases where the costs are likely to fall with increase in output.

3. Block pricing: - Block pricing is another way a firm with market power can enhances its profits. We see block pricing in our day- to –day life very frequently. Six Lux soaps in single pack. Illustrate this pricing method by selling certain number of units of a product as one package, the firm earns pricing is profit maximization price on each package. It is generally the total value the consumer receives for the package, including consumer surplus.

It works out as follows: suppose six international Lux soaps are offered, as a single unit along with an elegantly looking soap box, at a price of Rs. 100. Here the consumer has to make an all-or- none decision between buying units. Firm the customer point of view each international Lux soap costs say Rs.18 and the soap box is priced at Rs.25. so the soaps and box together cost the customer(6*18)+25=108+25=Rs.133, as against this, the pack of size international Lux soaps is offered at Rs100. Which is fairly attractive form the customer angle? The consumer surplus is here equal to Rs.33.

Block pricing enhances profits by forcing consumers to make an all-or-none decision to purchase units of a product. This can enhances profits even in situations where consumers have identical demands for a given product.

4. Peak load pricing: - During seasonal period when demand is likely to be higher, a firm may enhances profits by peak load pricing. The firs philosophy is to charge a higher price during peak time than is charged during off-peak times. The pricing is done in such a way that the business is not lost to the competitors. The firm following such a strategy covers the likely losses during the off peak times from the linking profits from the peak time.

Where the demand during the peak time is so high that all customers cannot be accommodated at the same price due to capacity constraints. The profitable alternative for the firm is to follow peak load pricing.

5. Price discrimination method: - If a firm is charging different prices to different customers for the same good or product. It is called price discrimination method. It is also called as differential pricing method.

Business &new economic environment.

1. Characteristics of business:

Business:-business is a human activity whose objective is to create wealth through purchase and sale of goods and services.

Characteristics of business:-

1. Entrepreneur:-an entrepreneur is a person who cans identity the potential of market for a product or services. The entrepreneur takes initiative in establishing the business by arranging several factors of production

2. Economic activities:-business involves various economic activities like purchasing of materials production distribution etc.

3. Exchange of goods and services: in order to make profits exchange of goods and services are integral part of a business.

4. Profit motive:-profit motive is the prime concern of a business. The activities which do not lead to profit making is not business.

5. Continuity of transaction:-business can be progressed through continuity in transactions.

6. Risk and uncertainty: -- business activity involves risk and uncertainty at every stage of its operation. This includes technology variation raw material, labour problems, market competition etc.

7. Creation of utility:-the product or services must be useful and satisfy the customer requirements

8. Financing: - financial support is necessary for setting up infrastructure and running business smoothly no business can be thought of without finance.

9. Consumer satisfaction:-all business must satisfy customers demand if a consumer is not satisfied by the product or services he may switch to other brand of product.

2. FORMS OF BUSINESS ORGANISATION

The following are the forms of business organization based on ownership.

1. Sole trader or proprietorship

2. Partnership and

3. Joint stock company.

1. Sole trader or proprietorship:

Sole trader: - the sole trader is the simplest oldest and natural form of business organization. It is also called sole- proprietorship. Sole mean one. Sole trader implies that there is only one trader.

Features of sole trader:-

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1. Easy formation: A sole trader business is easy to organize; there are no legal formalities to start the business. It can be commenced very easily and quickly except in special form of business such as hotel, liquor shop drugs store etc. Any people who have necessary skill and capital can start this type of business.

2. Limited resources: in case of sole proprietorship the owner is an individual. Resources of an individual are always small and limited as compared to the resources of the group. It also suffers from the limited ability and limited capital of the owner.

3. Unlimited liability: the sole trader is personally liable for all the debts taken for running the business. If the sole traders business properties are not sufficient to pay the debts of business. He must sell from his personal property and pay off the debts.

4. Freedom of choice of the business: the sole trader is free to choose the business of his choice, provided the business is not illegal and against the public interest

5. Prompt decision: the sole proprietor being the sole of the business is capable of taking immediate decision and avail of the business opportunities, whenever available. Taking prompt decision and implementing them at once is always in the interest of the business.

Advantages or merits of sole trading business:

1. Easy to form: A sole trader business is easy to organize; there are no legal formalities to start the business. It can be commenced very easily and quickly except in special form of business such as hotel, liquor shop drugs store etc. Any people who have necessary skill and capital can start this type of business.

2. Easy to close: it is easy to close sole trader business. No legal formalities are required to close this type of business.

3. Maintaining of secrets: since sole trader is the single person who is in charge of business activities he can maintain full secrecy of his business methods. He may take full advantage of any new idea.

4. Tax benefits: A sole trader can enjoy certain tax benefits because there is no distinction made between personal income and business income.

5. Quick decision: since sole trader is the master of his own business. He need not consult anybody. Therefore he can take his decision promptly and quickly.

6. Personal contact with consumers: since customer satisfaction is the major factor of success in business a sole trader can study the tastes and needs of customers, because of personal contact he can satisfy them easily.

7. Independent living: sole traders have complete freedom in all his business matters. He enjoys pleasure of self employment and freedom.

8. Reduction in unnecessary expenditure: since the sole trader has to bear all business losses, he tries to avoid all unnecessary expenditure and wastage.

Disadvantages or limitation of sole trading business:

1. Limited capital: if the sole trader wants to expand his business he cannot do so because the capital contributed by him is limited.

2. Limited borrowing capacity: the sole traders borrowing capacity is limited due to limited finance resources.

3. Limited managerial skill: in order to run a business effectively and efficiently an individual has to be an expert in all branches of business. A sole trader may not have all types of skills hence it may cause set back to develop the business.

4. Limited business activity: A sole traders business activities will be limited due to limited capital and limited managerial ability. Hence the area of operation will also be limited.

5. Unlimited liability: the sole trader is personally liable for all the debts taken for running the business. If the sole traders business properties are not sufficient to pay the debts of business. He must sell from his personal property and pay off the debts.

6. No division of labour: it is possible for a sole trader to introduce division of labor. He himself has to look after various aspects of business on account of this the management becomes less.

7. No perpetual existence: if the sole trader expires. The business has to be closed down. Hence the life of the business depends on life of the owner.

2. Partnership Firm

Partnership Firm: - A partnership firm of organization is defined as the ''relation between two or more persons. Who have agreed to share profits of a business carried on by all or any of them acting for all'' persons who have entered into partnership with one another are individually called "partners" and collecting as a "partnership firm".

Features of partnership firm

1. Agreement: - A partnership is the result of an agreement and not of status. It is created by mutual consent between the partners. There must be an oral or a written agreement to form a partnership.

2. Presence of business: - A partnership is a form of business organization. The association of a few individuals is for conducting a certain business.

3. Sharing of profits: - The object of starting a partnership should be the sharing of profits.

4. Unlimited liability: - Each partner has an unlimited liability in respect of the debts of the firm. The creditors can recover their dues from the properly of any or all the partners of the firm.

5. Dual role of principal and agent: - Every Partner can act simultaneously as a principal and agent of the firm. As an agent he can bind the other partners by his acts. As a principal be is

Bound by the acts of the others.

6. Number of members: - A partnership firm can be formed with a minimum of two members. The maximum of members to conduct a general business is twenty and in case of banking business the maximum is ten.

7. Restriction on transfers of shares: - A partner cannot transfer his share in a firm to an outsider without the consult of the other partners.

Advantages or merits of partnership form

1. Ease of formation: - A partnership can be easily formed. Unlike in the case of a joint stock company, no legal formalities are required for the formulation of a partnership. Registration of firms is not compulsory although provision exists for it.

2. Larger resources: - This form of organization enables the pooling or larger resources than sole proprietorship because a number of persons (partners) contribute to the capital of the business.

3. Flexibility: - The partnership form of organization is extremely elastic and mobile it can undertake new types or business without any legal formalities. It can decrease or increase capital at the will of the partners.

4. Promptness: - The decisions in a partnership firm are quite prompt because partners often meet together to discuss various aspects of the business. Thus partner can take advantage of sudden business opportunities.

5. Balance judgment: - In addition to the pooling of capital resources the partnership combines abilities and skills of two or more persons for handling the problem of the firm. The decisions are likely to be more balanced as compared to a sole proprietorship concern.

6. Reduced risk: - The losses incurred by the firm will be shared by all the partners and hence the share of loss each partner will be less than in the case of a sole trading concern.

7. Greater managerial talent: - The partners may be assigned duties according to their talent. Different functional departments may be managed and controlled by different partners. The talent expertise and knowledge of partners in different fields can be used for the welfare of the business. It will help to increase the efficiency of the business resulting in more profits.

Limitation or demerits of the partnership form

1. Lack of harmony: - It is generally observed that there is friction and lack of harmony among the partners after the firm has worked for sometimes. The business may be paralyzed and may come to an end because of difference of opinion between the partners.

2. Limited resources: - The capital that can be pooled in partnership is limited. The reason being that the number of partners in a firm is limited to ten in case of doing banking business and twenty in the case of other than trading concerns. This makes the partnership form of organization highly unsuitable for business activities requiring large sums of capital.

3. Instability: - The partnership firm has no independent legal existence separate from its partners. Therefore a partnership automatically ceases to exist when any one of the several partners goes out of the firm.

4. Lack of public confidence: - A partnership may not enjoy public confidence because of the absence of the regulation and stricter legal control over its affairs.

5. Risk implied authority: - Every partner has an implied authority to bind the firm. A dishonest partner may land the firm and other partners in difficulties by his acts. The other partner may have to pay for the losses caused on account of the acts of the dishonest partner.

6.Joint and several liability:- From the point of view if liability a partnership is even worse than sole proprietorship because a partner is liable to the extent of his private properly not only for his own mistakes, but also for the mistakes and dishonest of the other partners. This is because partners are jointly and severally liable for the debts of the firm.

3.Joint stock company

Another important form of business organization is the company form of organization or the joint stock company. The company form of organization assumed importance after the industrial revolution which resulted in the production and distribution of goods and services on a large scale.

Definitions: According to L.H.Hanney A joint stock company is a voluntary association of individuals for profit having a capital divided into transferable share the ownership of which is the condition of membership.

According to companies Act 1956 A companies mean a company formed and registered under this act.

Features or characteristics of joint stock company:

1. Association of persons: A company is an association of person joining hands with a common motive

2. Independent legal entity: the company is created under law. It has separate legal entity. The company is not bound by the act of its members and members do not act as agents of the company.

3. Limited liability: the liability of its share holders is limited to the value of shares they have purchased if a company runs into losses and liabilities exceed the amount of assets of the shareholders they hold no liability for excess debt.

4. Common seal: A company being an artificial person cannot put its signatures. The law requires every company to have a seal and get its name engraved on it. The seal of the company is affixed on all important documents and contract as a taken of signature.

5. Transferability of shares: the shares of a company can be transferred by its members.

6. Separation of ownership and management: the shareholders of a company are widely scattered. A shareholder may like to invest money but may not be interested in its management. The companies are managed by board of directors. The ownership and management are in two separate hands.

7. Permanent existence: the company has a permanent existence members may change not affected by the death lunacy or insolvency of any member of the company. The company exists until it is wound up by the process of law

Advantages or merits of company:

1. Availability of large resources: A company can collect large sum of money from large number of shareholders. There is no limit on the number of shareholders in a public company .if need for more funds arise the number of shareholders can be increased. Joint stock companies are suitable for those businesses where large resources are required

2. Limited liability: the liability of members in a company form of organization is limited to the nominal value of the share they have acquired.

3. Continuity of existence: when a company is incorporated it becomes a separate legal entity. It is an entity with perpetual existence the members of a company may go on changing from time to time but that does not affect the continuity of a company .the death or insolvency of members does not in any way affect the corporate existence of the company.

4. Efficient management: in company form of organization. Ownership is separate from management .it enable the company to appoint expert and qualified persons for managing various business functions.

5. Transferability of shares: the shares of a public company are freely transferable.

6. Shared risk: in company form of organization the numbers of contributors are large. So risk is shared by a large number of persons.

7. Democratic setup: the company form of organization is democratic from both ownership and management side.

8. Social benefits: the company form of organization mobilizes scattered saving of the community.

Disadvantages or demerits of company:

1. Difficulty in formation: formation of a company is not an easy task .A number of documents are to be prepared and filed with the registrar several sanctions and approvals are required. It is an expensive. Difficult and time consuming process to get all the certificates.

2. Separation of ownership and management: the ownership and management of a public company is in different hands ownership of a company will be in the hands of the shareholders whereas the management will be done by the directors appointed by shareholders.

3. Fraudulent management: the promoters and directors may indulge in fraudulent practices.

4. Lack of secrecy: the management of companies remains in the hands of many persons. Hence secrecy is less.

5. Delay in decision making: in company form of organization no single individual can make a policy decision. All important decisions are taken either by the board of directors or shareholders. Decision making process is time consuming.

6. Concentration of economic power: the company form of organization has helped concentration of economic power in a few hands.

7. Excessive government regulations: large number of rules and regulations are framed for the working of the companies. The companies will have to follow rules even for their internal working.

4. Public Enterprises

Public enterprises occupy an important position in the Indian economy today .public enterprises provide the substance and heart of economy. It investment of over Rs 10000 crore is in heavy and basic industry and infrastructure like power transport and communications. The concept of public enterprise in India dates back to the era of pre-independence.

Forms of public enterprise: public enterprises can be classified into three forms

1. Departmental undertaking: department form of organization for managing state enterprises is the oldest form of organization in this form the enterprise works as a part of government department .the finances are provided by the government and management is in the hands of civil servants. The minister of the department is the ultimate in charge of enterprise. The enterpriser is subjected to legislative scrutiny .department management is suitable for public utility services and strategic is suitable for public utility services and strategic industries. Example:-Railways, postal department etc.

2. Public corporation: public corporation is created by a special statute of a state or central government. A legislative act is passed by defining the sphere of work and mode of management of the under taking. A public corporation is a separate legal entity created for a specific purpose. In India, the reserve bank of India. Industrial development bank of India are some of the corporations created by special act of parliament.

3. Government Company: A company owned by central or state government is called a government company but at least 51% shares are held by the government. Management of these companies is under the control of the government. According to Indian companies Act 1956. Government company means any company in which not less than 51 percent of the paid up share capital is held by the central government or by any state government or partly by the central government and partly by one or more state government and includes a company which is a subsidies of a government company.

Problems of public enterprises:

public enterprises suffer from a number of problems .some of the problems relates to their day to day working and others relate to policy matters and control.

1. Over – capitalization: it means that the company is having excess capital than what is required. It is harmful to company as the earnings of the company gets diluted which results in the decrease in the of return on capital employed.

2. Lock of production planning: lack of production planning process proper targets and faulty planning of production results in under-utilization of capacities. This is an important source of inefficiency.

3. Poor manpower planning: the employees recruited in the public enterprise are disproportionate to the size of the activities carried in the firm. The requirement of manpower is not planned in a proper manner.

4. Political interference: the public enterprises are suffering from excessive involvement and political control such excessive involvement breaks the functional autonomy.

5. Pricing policy: price policy of public enterprises has always remained a topic of controversy. Whether these undertaking should take profit or should work on no profit no loss basis has always been debated.

6. Working conditions: the working conditions of the staff concerning recruitment fixation of wages, salaries and rules for incentives etc. should be made similar in all public undertakings.

7. Industrial relations: industrial relations have become significant factors in industrial environment a proper care should be taken for selecting and training of workers. Various incentive schemes should be devised to prompt the workers for raising their output.

8. Over employment: in general public sector is over employed. There by it is having high overheads in terms of retying people without necessity.

5. New Economic Environment

Global changes have compelled May developing countries including India to open their economies and markets. The interests of developed nations were to be achieved by the use of their technological and economic superiority over others. The rich countries desired to reach out for the natural resources of tropical countries and their markets by means of patenting and trade related intellectual property rights, India opted for economic reforms liberalization, privatization and globalization to match the global changes.

1. Liberalization: the new Economic policy (1991) provides freedom to the entrepreneurs to enter any industry or trade a new business enterprise can be started without seeking the permission of the government. The new policy has made possible all these things by making the rupee convertible in respect of transactions of current account covering export/ import of goods and services including remittances.thuse the absence of state control enables the entrepreneurs to make their own business decisions and they are able to compete in the market to take advantage of market opportunities.

Advantages of liberalization:

1. Di-licensing of industries: Di-licensing of industries means the government removed the excessive restriction in rules, and licenses of industries. Liberalization removed the lengthy process of obtaining a license it helps people to open a new business in that industry easily, further, this helps the economy to increase competition and the nation’s performance.
2. Increase in Foreign direct investment: - Removing this act Also helps Indian businesses to take investment freely and quickly from foreign investors which helps to expand the business. Foreign people can also invest without any permission from the government. In the current,

situation foreign investors can invest up to 49% as the company's ownership should remain with hands-on Indian.

3. Increasing in foreign technology:- This results in effects to increase in import of foreign technology to use advanced levels of technology so business can run effectively as well as efficiently.

4. Industrial location: - As removing unwanted rules, now the company can set up an industrial location where the business can run effectively. As before it takes a huge time to take permission from the government to set up industry in different locations.

5. Faster growth and poverty reduction: - Due to the rise in export and import, it also helps the country to grow fast, Increase employment. This results in a reduction in poverty.

2. Privatization:

Privatization means transfer of ownership and management of an enterprise from the public sector to the private sector. It also means the withdraw of the state from an industry or sector. Partially or fully.

Benefits of privatization: privatization benefits the society in several ways. Some of its benefits are as under.

1. It reduces the fiscal burden of state by relieving it of the losses of the public enterprises and reducing the size of bureaucracy.
2. Privatization enables the government to raise funds.
3. It enables the government to concentrate more on the essential state functions.
4. Privatization helps accelerate the pace of economic development as it attracts more resources from the private sector for development.
5. It may result in better management of the enterprises.
6. Privatization may also encourage entrepreneurship.

3. Globalization:

During the last quarter of the 20th century business environment the word over was conditioned in a big way by the slogan of globalization, globalization means adopting a global outlook for the business and business strategies aimed at enhancing global competitiveness.

A truly global corporation views the entire world as a single market and it does not differentiate between domestic markets and foreign market and international market there is home market and international market there is only one market, i.e. global market.

Reasons for adopting globalization: as the following reasons are forwarded in favor of globalization.

1. Profit advantage: an important incentive for international business is the profit advantage even when international business is less profitable then domestic it could increase the total profit if the international business enables the form to achieve optimum capacity utilization or economics of scale. One of the important motivations for foreign investment is to reduce the cost of production by taking advantage of the cheap labour, raw materials etc.

2. Growth opportunity: the enormous growth potential of many foreign markets is a very strong attraction for foreign companies in a number of developing countries population and income are growing fast.

3. Domestic market constraint: domestic demand constraints drive many companies to expand the market beyond the national border the market for a number of products have tended to decline in advanced countries. This often happens when the market potential has been almost fully tapped.

4. Competition: competition may be a driving force behind internationalization a protected market does not normally motivate companies to seek business outside the home market. The economic liberalization, ushered in India since 1991, has increased competition from foreign firms as well as from firms with in the country.

5. Government policy and regulation: many governments give a number of incentives and other positive support to domestic companies to export and invest in foreign countries similarly several countries give a lot of impotence to import development and foreign investment. Further the foreign exchange earnings may enable a company to import capital goods technology etc. This may not otherwise be possible in countries like India.

Essay questions

1. Explain the features of sole trader form of organization. Discuss its advantages and limitations.
2. Define company .explain its features, advantages and disadvantages?
3. What is partnership firm? Explain its features, advantages and disadvantages?
4. What are the different types of competition? Explain the features of monopoly.
5. What is perfect competition? How is market price determined under conditions of perfect competition?
6. Discuss various pricing methods in detail.
7. Explain the features and price –output determination of monopolistic competition market.

Short questions

a. Write about globalization.
B. What is price skimming?
C. What do you mean by perfect and imperfect competition?
D. Who is a sole trader?
e. Define public enterprise
f. What is meant by equilibrium price?
g. Working capital cycle
h. What is meant by price discrimination?
i. What do you mean by partnership?
j. List out advantages of privatization?