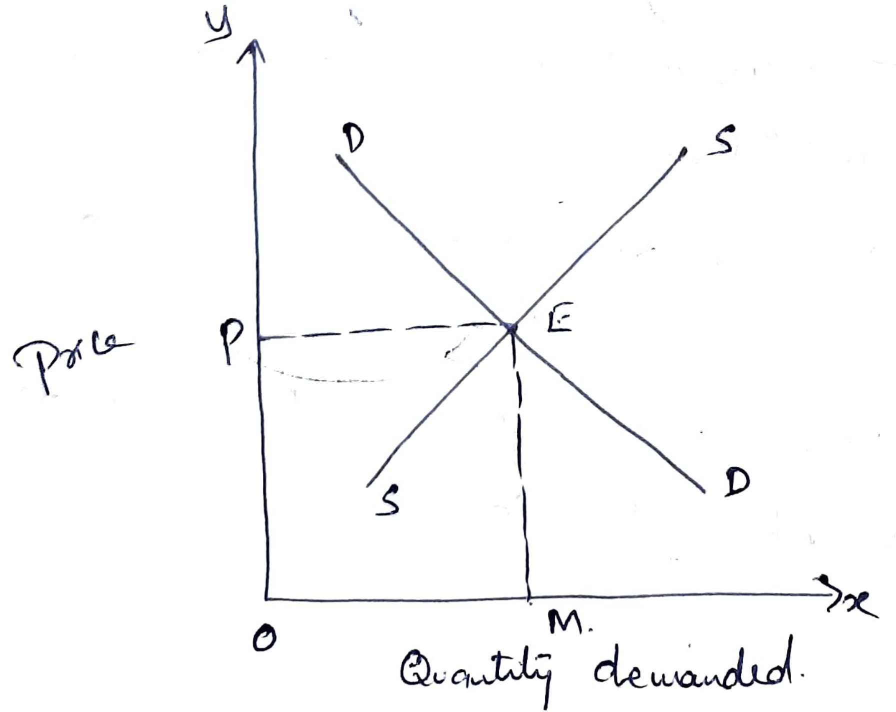
Price Determination Under Perfect Competition

In a perfectly competitive market, market demand and market supply determine the equilibrium price. Producers determine the supply and consumers determine the demand.

Price of the Commodity.	Market Demand (Kgs.)	Market Supply (Kgs.
50	100	200
40	120	180
30	150	150
20	200	110
10	300	50



Price of a commodity is determined by the demand and supply. Both the demand and supply vary with price of the product. The price at which the quantity demanded is equal to the quantity supplied, which is called the equilibrium price. At this price, exchange takes place between the buyers and the sellers.

Monopoly:

Monopolist means 'A Sole Seller' and the dictionary meaning is 'Exclusive Control'.

Main features:

1) There is a single seller who controls the whole supply of the commodity.

2) The product of the monopolist has no close substitutes.

3) Consumers are many and they compete with one another

4) When he fixes the price, the output to be sold is left to the consumers.

5) The average revenue curve slopes downwards to the right in monopoly.

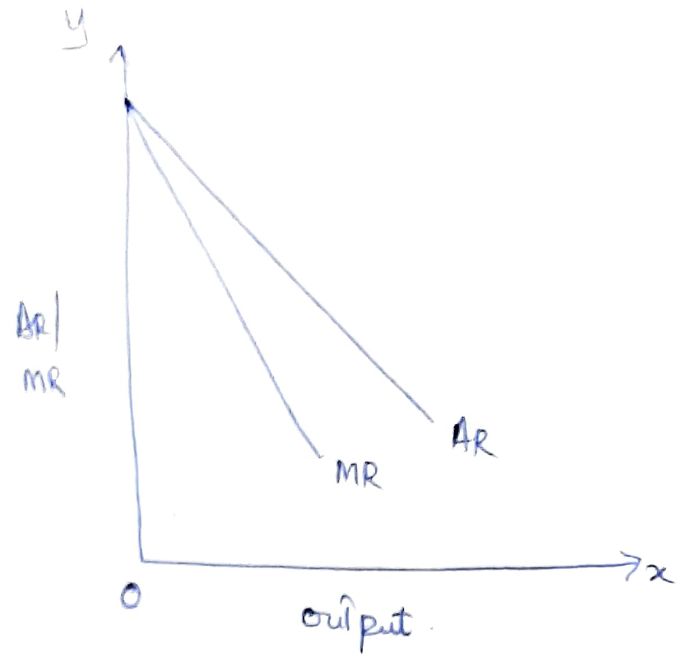
6) There is no distinction between the firm and industry in monopoly.

7) In different markets, the price is different depending on the demand elasticity of the product.

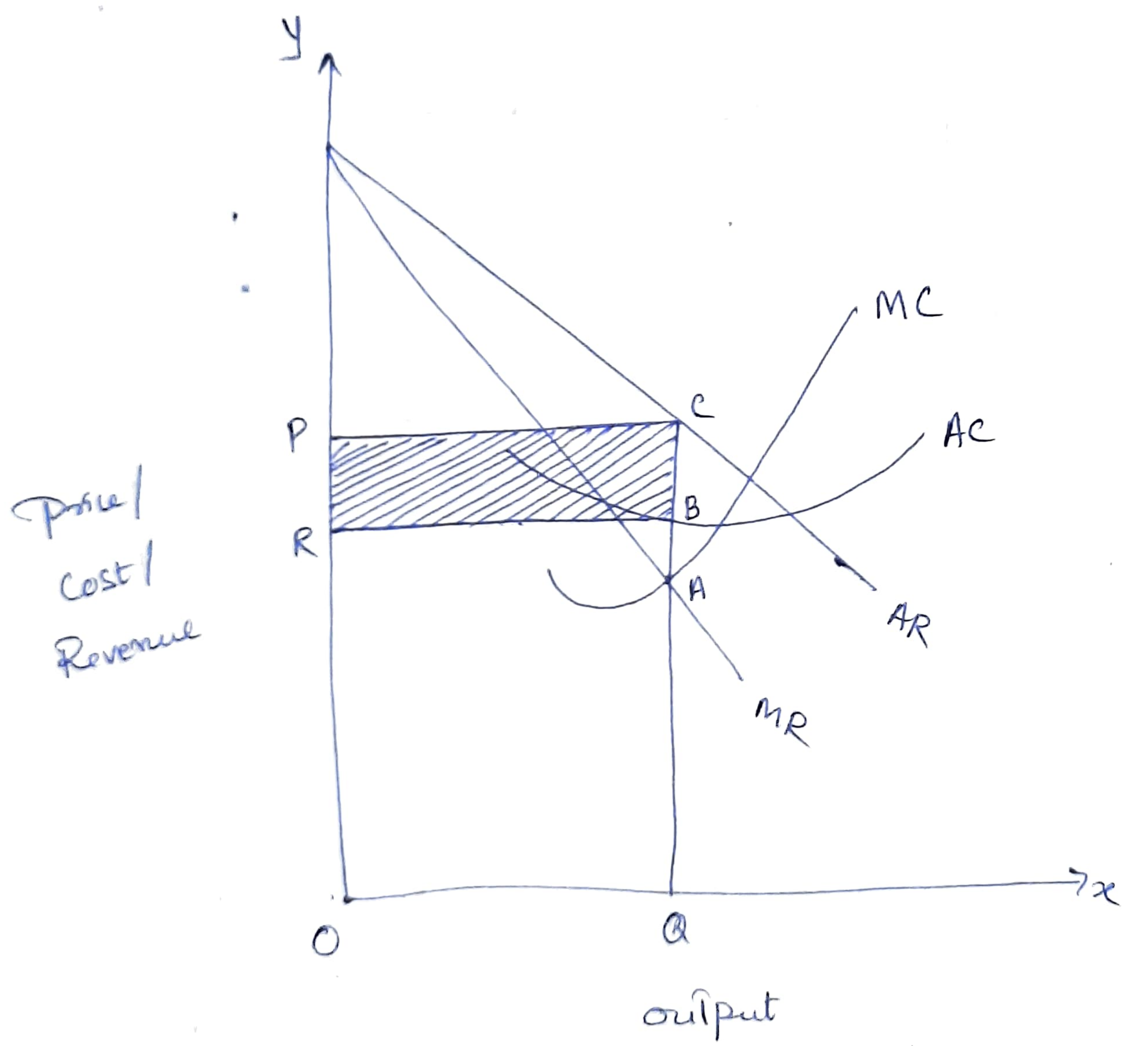
8) There are strong barriers for entry into the industry.

Price Determination in Monopoly:

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



y
AR/
MR
MR
AR
O
x
output



y
Price/
cost/
Revenue
MC
C
AC
P
B
R
A
AR
MR
O
Q
x
output

Total Revenue = OP × OQ = $\square$ POQC

Total Cost = OR × OQ = $\square$ ROQB

Total Profit = Total Revenue − Total Cost

$\square$ PQRC = $\square$ POQC − $\square$ ROQB

Monopolistic Competition :→

The term 'Monopolistic Competition' was coined by Prof. Edward H. Chamberlin of Harvard University in his book theory of Monopolistic Competition in 1933.

Meaning: It is a market situation in which there are many buyers and sellers of a differentiated product, engaged in buying and selling close but not substitute products.

Ex: Toothpastes, -- Colgate, Forhan, Cibaca

Features:

1) There are many buyers and Sellers.
2) The Products being sold are differentiated or heterogeneous in character.