

Market:-

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Market is a place where goods are purchased and sold. Exchange of goods and services takes place in a market.

Classification of market :-

There are 3 important factors in classification of market.

- 1) The no. of buyers and sellers in a market which depends upon competition
- 2) Area coverage of a community
- 3) Time period



## I Competition Based market:-

The markets are divided into two types based on competition there are

### A) perfect competition:-

This market is a market with a very large no. of buyers and sellers.

\* In this market, the seller is a "price taker" and market is a "price maker"

→ All the sellers sell similar kind of products

### B) Imperfect Competition:-

Markets with a limited no. of buyers & sellers come under imperfect competition.

→ Based on the no. of producers these markets are broadly,

- \* Monopoly
- \* Monopolistic
- \* Duopoly
- \* Oligopoly

## II Area Based market:-

### A) Local market:-

Some times a particular commodity is exchanged in the locality where it is produced. Then the commodity is said to have a local market



Vegetables, flowers, fruits may be produced & marketing in the same area. They are not transporting to distant areas.

Now facilities have come to store & transport these goods also.

### B) National market:-

A commodity will have national market if it is demanded & supplied by people in different parts of the country. Commodities like wheat, sugar, cotton etc. have national market.

### g) International market:-

If a commodity is sold & purchased in different countries, it is said to have an international market.

Ex:- Gold, Silver.

### III Time Based market:-

A) Finally there are markets based on adjustment in supply of commodity.

→ Changes in the supply of a " depends on time period.

They are :-



A) Very short period market :- //

This is also called "market period". A producer cannot make any changes in the supply of good in this period.

Ex:- A farmer on a particular day supplies whatever vegetables he gets from the field.

B) Short period market :-

It is apparent in which to some extent. This is possible by changing certain inputs. In the above example, in a period of 2 to 3 weeks a farmer may use more fertilizers, water to increase his supply.

C) Long period market :-

A producer make changes in all inputs depending upon the demand in a long period. It is possible to make adjustments in supply in this period. Crop area, implements & others can be changed to increase output in the next season.

Features :-

Among different markets, markets based on competition are important.



These markets are crucial in deciding output, price of the good, competition and profits to the producer.

Therefore perfect competition is a market with large no. of buyers & sellers.

The conditions under it promote competition among producers.

There will be a single price throughout the market.

Perfect competition market:-

Should have the following features.

- I Large no. of buyers & sellers :-
  - 1) There will be large " " for good
  - 2) It means output of a buyer or a seller is a small part of the total output
  - 3) A single producer or seller cannot change the price by his actions.
  - 4) None of them is large enough to influence the price.

For ex; A wheat farmer alone cannot change the price of wheat by selling less or more.

Therefore, a seller takes the price decided by the market. The producer is a price taker.



## II Homogeneous Commodities :-

- 1) products in this market are similar in every respect
- 2) A consumer get the same good wherever he purchase
- 3) As a result there will be one price all over the market
- 4) For ex:- In case of metals like gold & silver standards or prescribed. Thus, products will be the same in the market & they have same price throughout the market.

## III Free entry and exit:-

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Any firm can enter into the production as per its desire. Similarly, it can leave the production that is market at any time.

This helps new firms to enter into business when conditions are favorable. It keeps competition at higher level as long as a firm earns super normal or normal profits, it usually stays in competition. But when a firm ends up with losses, it would leave the firm.



#### IV Mobility of factors of production:-

Factors of production will move from one production to another easily. This is also useful for free entry and exit ~~of~~ <sup>of</sup> firms. Factors (Land, Labour, capital) move to the production activities where they get higher incomes.

#### A Absence of transportation costs:-

Transportation costs do not change the prices of commodities. If sellers are closed to the market, transport costs to be zero. When all of them come from the same place, transport charge will be the same.

Therefore, prices charged by different sellers do not change due to transportation costs.

#### Perfect knowledge of the market:-

Buyers & sellers in this market will have a clear knowledge about market condition so that they will be one price throughout the market. Lack of knowledge leads to different prices for the same product.

Because of perfect knowledge, sales & purchase of commodity take place at one price.



### Conclusion :-

When <sup>above</sup> all the features are present, the market works in a perfect manner but, this is not possible in the real world. Hence, it is considered as an ideal market or model market. Only for agricultural products, gold, & silver this market exists.

### \* Price determination under perfect competition market :-

#### 'Demand & supply schedule'

Price	Quantity demanded	Quantity Supplied
1	50	10
2	40	20
3	30	30
4	20	40
5	10	50

Under perfect competition,

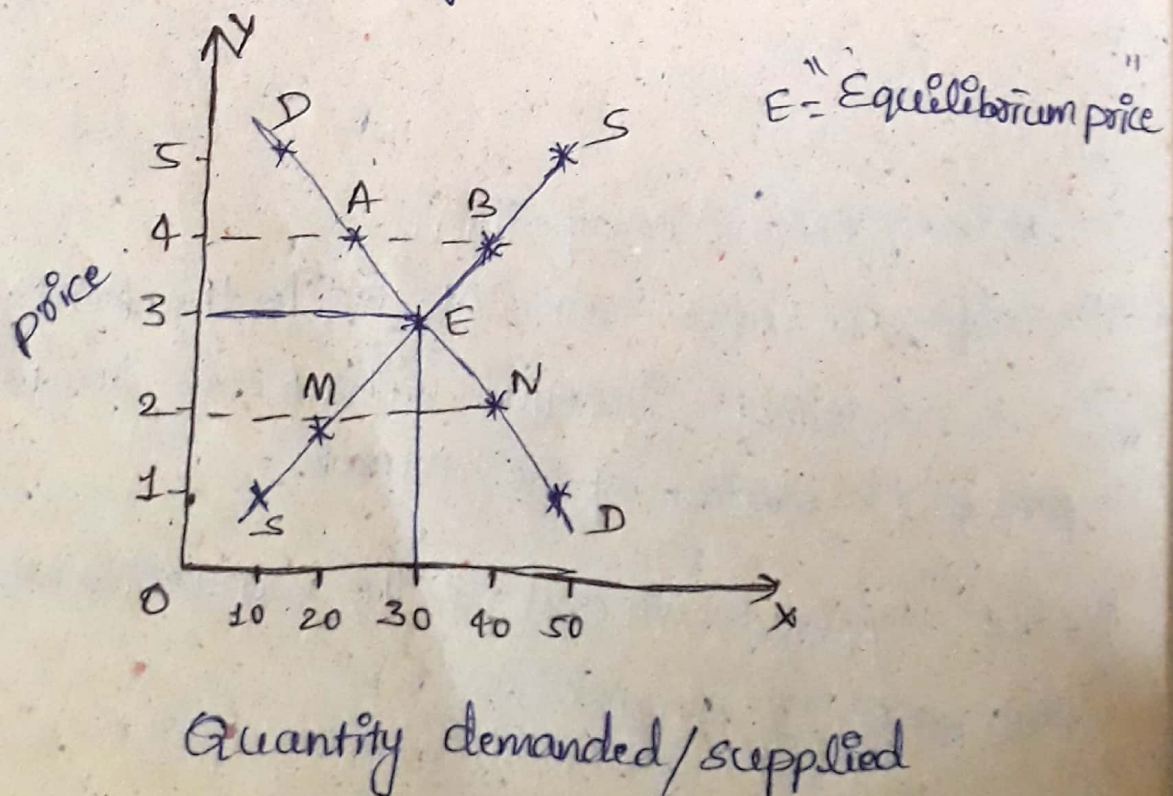
- 1) Seller or buyers can not decide the price
- 2) In a perfect situation without any limitations, price is decided by the market
- 3) The supply & demand in the market determine the price of commodity.



Market brings about a balance b/w the commodities that come for sell & those demanded by consumers. It means, the forces of supply & demand determine the price of good. Adjustments in supply & demand takes place to bring a balance b/w them.

Equilibrium price is established at the point where the demand & supply are equal. The price decided by the market is followed by the seller. It is for this reason that a seller is price taker in this market.

The above table helps us to understand the changes in supply, demand & equilibrium price. The table shows the demand & supply schedule of a good.





- Changes in price are always causing a change in supply and demand.
- As price increases, there is a fall in the demand.
- As price decreases, there is an increasing in the demand.
- Thus, there is a -ve relation b/w price & demand.
- In the other case, when price increases, supply is increased.
- When price decrease, supply decreases.
- Thus, there is a +ve relation b/w price & supply.
- At one price Rs 3, it can be observed that demand and supply are equal. This is called equilibrium price.
- This process is explained with the help of above diagram.
- The supply & demand curves are shown in the diagram.
- Price is taken on y-axis
- Quantity demanded/supplied taken on x-axis
- DD - Demand curve. It slopes down wards from left to right
- SS - supply curve. It slopes upwards from left to right
- E - Equilibrium price, where demand is equal to supply.



- At price Rs 4 the demand decreases and supply increases. That is at this price less is demanded by consumers but more is supplied by producers.
- The excess supply is AB in the diagram.
- The excess supply leads to competition among sellers. (or) producers.
- At price Rs 2, the demand is more and the supply is less.
- That is more is demanded by buyers but less quantity is supplied by sellers.
- The excess demand is MN in the diagram.
- Thus, there is more competition b/w the buyers or consumers or customers.