Unit-4

- Markets
  - Competition
    - perfect Competition
    - Imperfect Competition
      - Monopoly
      - Monopolistic
      - Duopoly
      - Oligopoly
  - Area
    - Local market
    - National Market
    - International market
  - Time
    - veryshort period Market
    - Short period Market
    - Long period Marke

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 classificatio of market.

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

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I Compitation Based Market :-

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

A) perfect compitation :-

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 Compitation :-

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

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

* Monopoly
* Monopalistic
* Duopaly
* Oligopaly

II Area Based market :-

A) Local market :-

Some times a particular commudity is exchanged in the locality where it is produced. Then the commudity 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 commudity will have national market if it is demanded & supplied by people in different parts of the country. Commudities like- wheat, sugar, cutton etc. have national market.

C) International market:-

If a commudity is sold & purchased in different countrys it is said to have international market

Ex:- Gold, silver.

III Time Based market:-

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

-> 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 supplys whatever vegetables he gets from the field.

B) Short period market :-

It is appeared 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 fatilizers, 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, impliments & others can be changed to increase output in the next season.

Features :-

Among different markets, markets based on competition are important.

These markets are crusial 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 producer.

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 commudities :-

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 feverable. It keeps compitation 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 loses, 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 ~~for~~ of firms. Factors (Land, Labour, capital) move to the production activities where they get higher incomes.

V Absence of transportation costs:-

Transportation costs do not change the prices of commudities. 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:-

Buyer & 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, selles & purchase of commudity take place at one price.

Conclusion :-

When above 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 modelon market. only for agricultural products, gold, & silver this market exist.

* 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

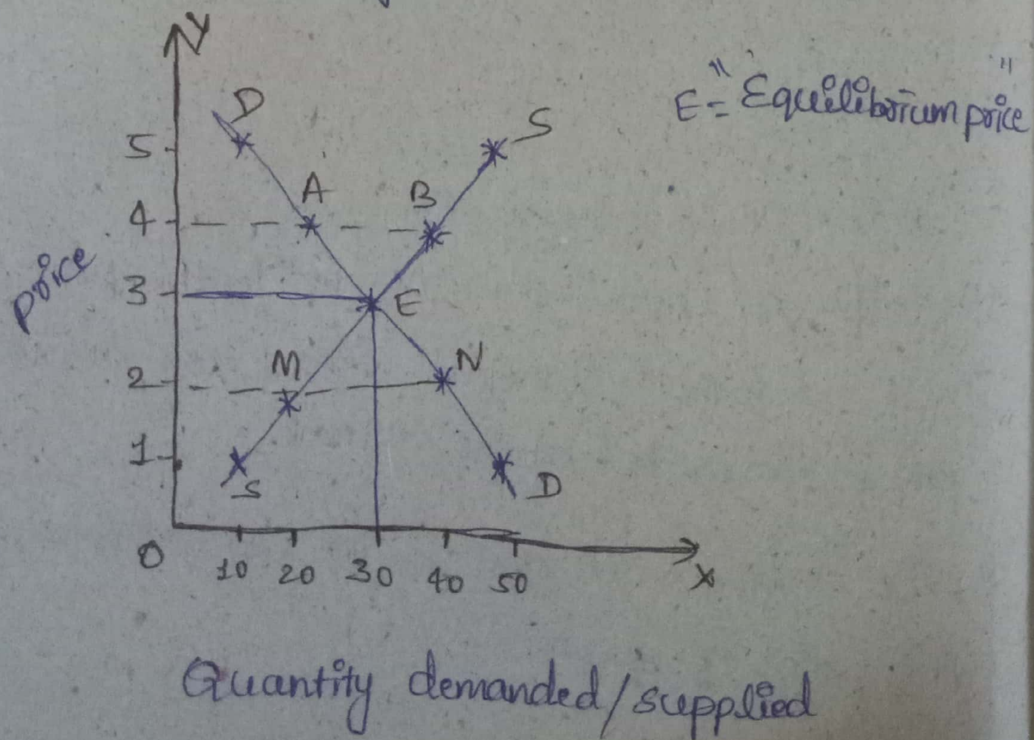
Under perfect competition,

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 as to understand the changes in supply, demand & equibrium 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 demded/supplied taken on x-axis

→ DD - Demand curve. It slopes down words 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 demandent 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

Monopoly

26/10/2018

Mono - single
Poly - seller
Monopoly - Single seller market

The word monopoly means a single producer. It is a market where one producer or a firm supplies the commodity to a market.

→ The product supplied by a monopolist will not have close substitutes in the market.
→ A consumer will not find a substitute product for a monopoly product.
→ This happens mainly because there is no freedom for other firms to enter into the monopoly market.
→ The reasons are huge investment, lack of technology, lack of resources, paytents etc.,
→ As a result, producer under monopoly as no competition, in the market.
→ The firm and industry are same in a monopoly market.
→ Thus, the producer is a "price maker" and the market is a "price taker".
→ Example railways, electricity board

Main features of Monopoly :-

→ A single firm produces the commodity in the market

→ Consumers will not find any close substitutes for this product in the market.

→ New firms do not enter due to certain restrictions, he

→ Hence, there is no competition in the market

→ Firm & Industry are same

→ In this market, the producer is a "price maker" and market is a "price taker"

Price Determination under monopoly :-

→ In a monopoly there is a single producer.

Quantity of Good (Q)	price (P)	Total Revenue(TR) (PXQ)	Average Revenue(AR) (TR/Q)	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

Equilibrium point :- Marginal cost = Marginal revenue

2/

→ In a monopoly there is a single producer He can control either the supply or the price.

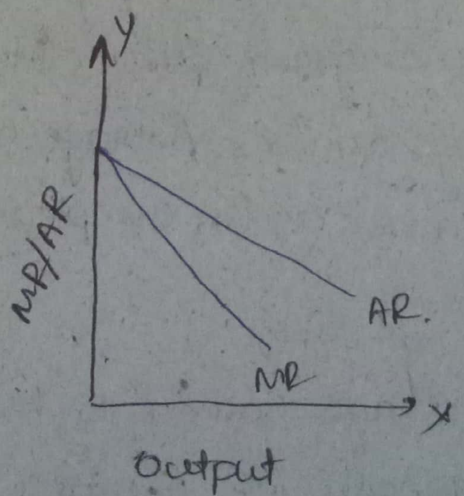
→ But, he can not control both at the same time. He can increase the price by decreasing the output or he can sell more output by decreasing the price.

→ Maximization of profits is the main objective of the monopolist. Under monopoly, firm & industry are same.

→ As in perfect competition monopoly equilibrium is determined at the point where marginal cost is equal to marginal revenue.

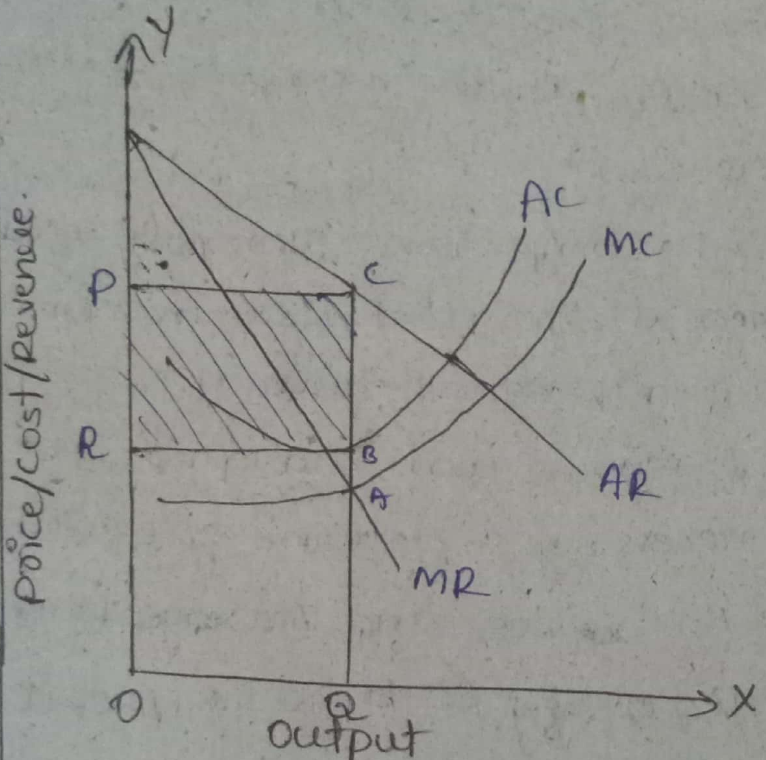
→ So marginal revenue and marginal cost curves are necessary to determine equilibrium.

→ In addition, Average cost and Average Revenue curves are neccessary to know the profit or lose position of the firm.



The table specifies that average revenue(AR) & marginal Revenue (MR) are different for each other. Both the curves slopes downward from left to right. Because more output can be sold by decreasing the price.

→ The Average Revenue curve always lies above the marginal revenue curve



From the above diagram, price determination under monopoly requires Average cost & marginal cost curves as in the perfect competition.

→ The shape of Average Cost & Marginal cost curves in monopoly is similar to average & marginal cost curves under perfect competition.

→ These two curves are in 'U'-shape. Average cost comprises of Average fixed cost & Average variable cost.

→ In the diagram x-axis represents the output & y-axis represents the price/cost/Revenue.

→ AR & MR are the Average & marginal revenue cost

→ AC & MC are the average & marginal cost curves.

→ At point 'A' MC cuts MR. This is the equilibrium point of monopoly.

→ The output at that level is 'OQ' and price is OP.

→ At 'OQ' output the difference b/w average revenue & Average cost indicates the profits of the firm.

→ In the figure 'BC' indicates the profits per unit of output

Monopolist Competition:-(PKS)