Types of Monopolies

- Discriminating or Non-Discriminating
- Pure or Imperfect
- Natural Monopoly
- Legal Monopoly

What can Create a Monopoly situation

- Control over resources
- Capital Requirements
- Cost efficiency due to scale or technology advantage
- Legal Barriers
- Manipulations/Artificial Barriers

Game Theory – Prisoner's Dilemma

In the prisoners' dilemma, two criminals are apprehended and placed in separate cells. The prosecutor has enough evidence to put each away for two years. However, these criminals are guilty of an offence that carries an eight year sentence if evidence is sufficient to convict. The prosecutor needs one or both of the prisoners to turn state's evidence. The payoffs facing these prisoners is summarized in the following table

Prisoner 1 (rows), Prisoner 2 (cols.)	Prisoner 2 Tells	Prisoner 2 Doesn't Tell
Prisoner 1 Tells	-6, -6	0, -8
Prisoner 1 Doesn't Tell	-8, 0	-2, -2

Note: Prisoner 1's payoff is the first number in each cell (no pun intended), Prisoner 2's payoff is the second number.

Pepsi vs Coke

Whether to keep Price High or Low ?

		Coca-Cola: HIGH	Coca-Cola: LOW
Pepsi	HIGH	\$2000, \$2000	\$900, \$2500
	LOW	\$2500, \$950	\$1000, \$1000

Accounting Profit vs Economic Profit

Accounting Profit = Revenue – Explicit Costs

E.g. You are currently an entrepreneur, your business earns a revenue of Rs.10 Lacs and Explicit Costs of your business are Rs.6 Lacs

Then your accounting profit = Rs.4 Lacs

Economic Profit = Revenue – Explicit Costs – Implicit Costs

E.g. Now economic profit will additionally consider an opportunity cost of you not being employed. Let's say if not operating the business, you would have otherwise earned a salary of Rs. 5 Lacs.

Then Economic Profit = - Rs.1 Lac

Pricing Practices

- Marginal Cost Pricing
- Mark up Pricing
- Price Skimming
- Penetration Pricing
- Bundle Pricing
- Price Discrimination
- Reference Pricing
- Premium Decoy Pricing
- Predatory Pricing
- Transfer Pricing
- Psychological Pricing

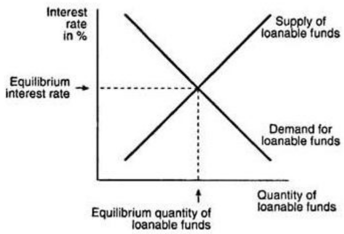
Capital & Capital Budgeting

Prof. Siddhesh Soman

Capital

- Economic Capital refers to: Those durable produced goods that are in turn used as productive inputs for further production of goods and service.
- These durable goods need to be built or purchased through funds which in turn are called as 'Financial Capital'
- In any economy the role of Financial Markets is to facilitate the flow of Financial Capital from where it is in surplus (the supply of capital) to where is needed (the demand for capital).

Equilibrium Interest Rates



Capital Budgeting

- Capital budgeting is the process a business undertakes to evaluate potential major projects or investments. In simple terms it is making the budget of capital expenditure.
- E.g. Construction of a new plant or Purchasing Machinery or Launching a new project etc.
- As part of capital budgeting, a company might assess a prospective project's lifetime cash inflows and outflows to determine whether the potential returns that would be generated meet a sufficient target benchmark. The capital budgeting process is also known as investment appraisal.

Methods in Capital Budgeting

Method	Meaning	Selection Criteria Single	Selection Criteria Multiple
Payback Period	The period by which the initial investment is recovered	Based on Company policy	Lower is Better
Accounting Rate of Return (ARR)	Rate of Return based on Accounting Profit	Based on Company policy	Higher is Better
Net Present Value (NPV)	Net Present Value added by the project today	+ve: Select -ve: Reject 0: May Select or reject	Higher is Better
Profitability Index (PI)	Rate of return based on Present Value of Cash Flows	>1: Select <1: Reject 1: May Select or reject	Higher is Better
Internal Rate of Return (IRR)	The minimum rate of return that the project should earn	> Ko: Select < Ko: Reject = Ko : May Select or reject	Higher is Better

Capital Rationing

- Capital rationing is the act of placing restrictions on the amount of new investments or projects undertaken by a company.
- In simple words, it is rationing of capital expenditure budget available to the business
- E.g. Budget Rs.10,00,000

Cost

Project 1: 5,00,000
Project 2: 10,00,000
Project 3: 2,00,000
Project 4: 5,00,000
Project 5: 8,00,000