IARE '24 DISCORD TEAM

II-II

BEFA MODULE 3 SOLUTIONS

NIDHI • UJJWAL • PRANAV • ASRITHA

MARKETS AND NEW ECONOMIC ENVIRONMENT

In Edit

BEFA MODULE 3

PART A

1. How does an individual firm behave under perfect competition? Also explain the firm and the industry equilibrium under perfect competition?

Under perfect competition, the firm must accept the price determined in the market. The firm is a price taker --it can produce as much or as little as it likes without affecting the market price. Each firm must match the price offered by its competitors because the products are identical

Equilibrium of the Industry In a Perfectly competitive Market, several influential factors determine the Price of commodities. For example, if the demand is high and supply is low, then the Price will increase. During a storm or flood, you will notice that the Price of groceries rises tremendously. This is because the storm or flood has destroyed the crop, and hence the supply reduces. However, since the demand for groceries is still high, therefore, the Price automatically increases. On the other hand, if the supply is more than demand, then the Price will drop. Equilibrium of both the industry and the firm is significant in Price Determination under a Perfect Competition Market

Equilibrium of the Firm in a Perfectly Competitive Market when there is profit maximisation, the firm is said to be in Equilibrium. The input that provides the highest output to that particular firm, is known as the Equilibrium output. In such a state, there are no factors to increase or reduce the output. The firm is the Price taker in a competitive Market. They produce homogenous commodities. Therefore, influencing the pricing factors isn't on the will of the firms. They strictly follow the Price structure, as stated by the industry. This is how Price and output Determination under Perfect Competition is done. Now, we will explore more on the topic of how Prices are determined under Perfect Competition

2. Explain the role of time factor in the determination of price. Also explain price output determination in case of perfect competition.

Time plays an important role in the theory of volume, i.e., price determination because supply and demand conditions are affected by time.

Price during the short-period can be higher or lower than the cost of production, but in the long-period price will have a tendency to be equal to the cost of production.

The relative importance of supply on demand in the determination of price depends upon the time given to supply to adjust itself to demand.

To study the relative importance of supply or demand in price determination, Prof. Marshall has divided time element-into three categories:

(a) Very short period or market period.

(b) Short period.

(c) Long period

Under perfect competition, price of the commodity is determined by the forces of demand and supply. Marshall, who propounded the theory says the price is determined by the forces of demand as well as supply. He also laid emphasis on the time element in the determination of price.

According to him, time plays a vital role in the determination of the price of the commodity, because when the demand for the commodity changes the supply cannot be changed in the same proportion. It takes time to bring changes in the supply of commodity.

Marshall has divided the time into four categories from the view point of supply:

1. Market Period.
2. Short Period.
3. Long Period.
4. Secular Period

time plays a vital role in determining the price of commodity. The shorter the time, the more will be the influence of demand as compared to the supply.

3. Explain how the price is determined under conditions of perfect competition. Illustrate this with the help of diagrams.

4. Monopoly is disappearing from the market. Do you agree with this statement? Give your opinion for the monopoly to continue in the market situations.

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.

Disadvantages of monopolies

1.Higher prices than in competitive markets – Monopolies face inelastic demand and so can increase prices – giving consumers no alternative.

For example, in the 1980s, Microsoft had a monopoly on PC software and charged a high price for Microsoft Office.

A decline in consumer surplus. Consumers pay higher prices and fewer consumers can afford to buy. This also leads to allocative inefficiency because the price is greater than marginal cost.

Monopolies have fewer incentives to be efficient. With no competition, a monopoly can make profit without much effort, therefore it can encourage x-inefficiency (organisational slack).

Possible dis-economies of scale. A big firm may become inefficient because it is harder to coordinate and communicate in a big firm.

Monopolies often have monopsony power in paying a lower price to suppliers. For example, farmers have complained about the monopsony power of large supermarkets – which means they receive a very low price for products. A monopoly may also have the power to pay lower wages to its workers.

Monopolies can gain political power and the ability to shape society in an undemocratic and unaccountable way – especially with big IT giants who have such an influence on society and people's choices. There is a growing concern over the influence of Facebook, Google and Twitter because they influence the diffusion of information in society.

Inefficiency of monopoly Monopolies set the price of Pm – which is higher than Pc (allocative inefficiency)Monopolies produce at Qm (which is productive inefficient – not the lowest point on AC curve)Monopolies lead to deadweight welfare loss of blue triangle.

Advantages of monopolies

Economies of scale.

In an industry with high fixed costs, a single firm can gain lower long-run average costs – through exploiting economies of scale. This is particularly important for firms operating in a natural monopoly (e.g. rail infrastructure, gas network). For example, it would make no sense to have many small companies providing tap water because these small firms would be duplicating investment and infrastructure. The large- scale infrastructure makes it more efficient to just have one firm – a monopoly

Innovation. Without patents and monopoly power, drug companies would be unwilling to invest so much in drug research. The monopoly power of patent provides an incentive for firms to develop new technology and knowledge, that can benefit society. Also, monopolies make supernormal profit and this supernormal profit can be used to fund investment which leads to improved technology and dynamic efficiency. For example, large tech monopolies, such as Google and Apple have invested significantly in new technological developments. However, this can also have downsides with drug companies able to charge excessively high prices for life-saving drugs. It also gives drug companies an incentive to push pharmaceutical treatments rather than much cheaper solutions to promoting good health and avoiding the poor health in the first place.

Firms with monopoly power may be the most efficient and dynamic. Firms may gain monopoly power by being better than their rivals. For example, Google has monopoly power on search engines – but can we say Google is an inefficient firm who don't seek to innovate?

Reasons for Existence of Monopolies Ownership of a Key Resource

Government Franchise Natural Monopoly.

Some modern economists argue that a monopoly is by definition an inefficient way to distribute goods and services. This theory suggests that it obstructs the equilibrium between producer and consumer, leading to shortages and high prices. Other economists argue that only government monopolies cause market failure hence they are disappearing

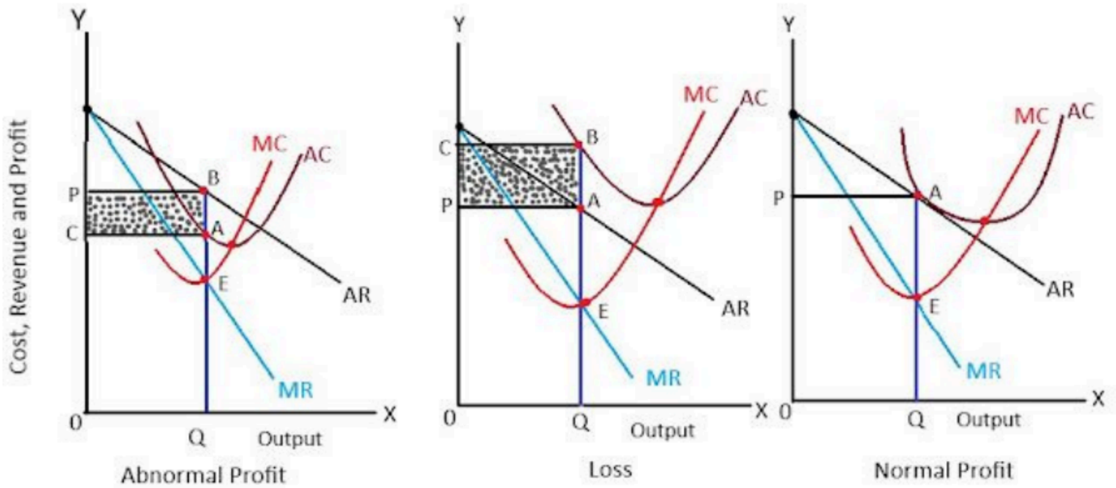
5. "It is believed that a firm under perfect competition is a price-taker and not a price-maker." Explain giving examples.

In a perfect competition market, every market will accept the price of a commodity after it is determined by the powers of the market demand and supply in the industry. The price policy they can adopt is very much dependent on other factors. This is because their contribution to the market is really small. In this situation, they cannot have any control over the market prices. The firms would not be ready to sell below the market price, and would lose customers if they exceed it. Therefore, it is known as the price taker.
For example, two companies, A and B offer identical laptops. However, the product of company A comes at a lower price, has a better graphic display and does not get heated up quickly. Besides, the efforts in its packaging and advertising are greater. This creates the benefits of product differentiation of company A over B in the market and the customer would be more inclined towards the former's products

6. Explain about the price determination in monopoly short run and long run.

Short run refers to that period in which a monopolist cannot change the fixed factors. However, the monopolist is free in determining price due to lack of competition. A monopolist has control over the market supply. So, he/ she is the price maker. His/ her price and output determination is motivated by profit as well as sales maximization. Therefore, he/ she will adjust the output in such a way that the marginal cost and marginal revenue are equal.
In short run equilibrium whether the firm makes an abnormal profit, normal

profit or loss, it depends on the level of AC and AR which can be shown as follows:-If AR=AC, the firm receives a normal profit.If AR> AC, the firm receives abnormal profit.If AR< AC, the firm bears the loss.The following conditions must be fulfilled in order to attain equilibrium under monopoly:-MR must be equal to MCMC must intersect MR from below.The equilibrium position of a monopoly



firm can be graphically presented as follows:-

In the above figures, the three different possibilities of profit and loss situation in the short run under monopoly firm are shown. These possibilities are explained as follows:-

1. Abnormal profit:-In the first figure, we see that the equilibrium point is 'E' when MC cuts MR from below. The equilibrium level of output is determined at OQ. The level of revenue earned is OP and the cost incurred is OC. Since Revenue is greater than cost, the firm earns abnormal profit equal to the shaded area (ABPC).
2. Loss:-In the second figure, point E is the equilibrium point where MC intersects MR from below. The equilibrium level of output is OQ. The cost incurred is OC and the revenue earned is OP. Since cost is higher than revenue, the firm bears loss equal to the shaded area (ABCP).
3. Normal profit:-In the third figure, we can see that the equilibrium point is at 'E' where the conditions for equilibrium are fulfilled. The equilibrium level of output is OQ. The revenue and cost are at the same level (OP). The firm earns just a normal profit to sustain its business in this case.

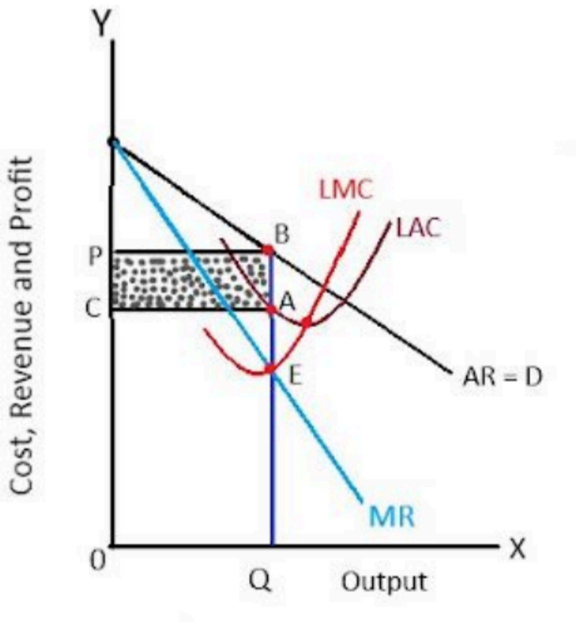
Long-run is that time period in which all the fixed and variable factors of production can be altered. The firm can change the size of plant and machinery and can determine the level of output to maximize its profit. Because of this, the firm does not suffer loss. Likewise, the entry of new firms is restricted somehow and the monopolist earns abnormal profit in the long run due to lack of competition.

The following conditions must be fulfilled to attain equilibrium under monopoly in the long run:

i) MR must be equal to LMC.

ii) LMC must intersect MR from below.

The equilibrium of a monopoly, in the long run, can be graphically presented as follows:-



In the above figure, LAC and LMC represent the long-run average cost curve and Marginal cost curve. AR and MR represent Average and Marginal Revenue. The equilibrium point is determined at 'E' where LMC intersects MR from below. The equilibrium level of output is determined at OQ. The cost incurred is OC and the revenue earned is OP. Since revenue is higher than cost (AR> AC), the monopolist earns abnormal profit in the long-run.

7."Firms may not maximize profit but they do have a profit policy." Discuss the above by bringing out clearly the various facets of a profit-policy decision by a firm.

8.To maximize the profit in the short run, a perfectly competitive firm produces the output for which price is equal to average variable cost-Why/Why not?

In determining how much output to supply, the firm's objective is to maximize profits subject to two constraints: the consumers' demand for the firm's product and the firm's costs of production. Consumer demand determines the price at which a perfectly competitive firm may sell its output. The costs of production are determined by the technology the firm uses. The firm's profits are the difference between its total revenues and total costs.Total revenue and marginal revenue. A firm's total revenue is P×Q. The dollar amount that the firm earns from sales of its output. If a firm decides to supply the amount Q of output and the price in the perfectly competitive market is P, the firm's total revenue is A firm's marginal revenue is the dollar amount by which its total revenue changes in response to a 1-unit change in the firm's output. If a firm in a perfectly competitive market increases its output by 1 unit, it increases its total revenue by P × 1 = P. Hence, in a perfectly competitive market, the firm's marginal revenue is just equal to the market price, P.

Short-run profit maximization. A firm maximizes its profits by choosing to supply the level of output where its marginal revenue equals its marginal cost. When marginal revenue exceeds marginal cost, the firm can earn greater profits by increasing its output. When marginal revenue is below marginal cost, the firm is losing money, and consequently, it must reduce its output. Profits are therefore maximized when the firm chooses the level of output where its marginal revenue equals its marginal cost

9.The case of perfect competition is sometimes referred to as a benchmark' industrial structure. In this context,what do you think commentators mean by the term 'benchmark'?

The term perfect competition refers to a theoretical market structure. In a perfect competition model, there are no monopolies. This kind of structure has a number of key characteristics, including:

All firms sell an identical product (the product is a commodity or homogeneous).All firms are price takers (they cannot influence the market price of their products).Market share has no influence on prices.Buyers have complete or perfect information (in the past, present, and future) about the product being sold and the prices charged by each firm.Capital resources and labor are perfectly mobile.Firms can enter or exit the market without cost.

The availability of free and equal information in a perfectly competitive market ensures that each firm can produce its goods or services at exactly the same rate and with the same production techniques as another one in the market hence it is used as benchmark.

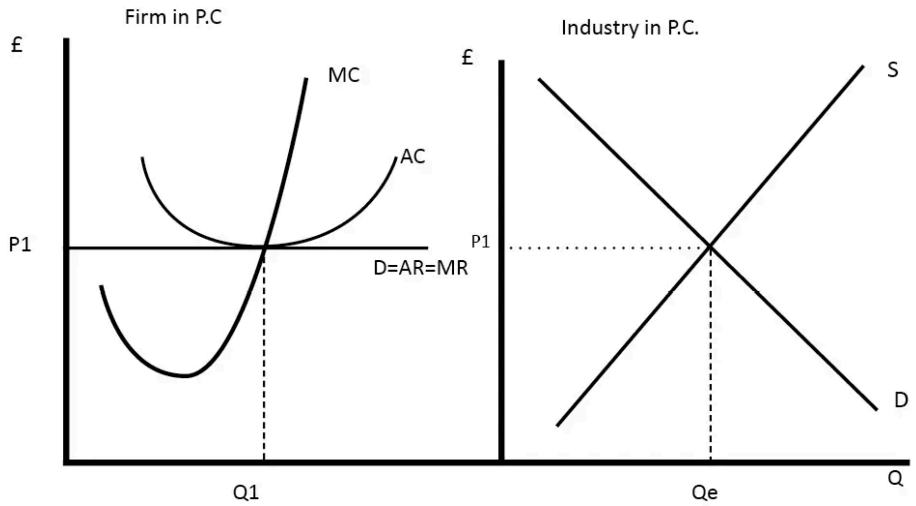
10. Assume that firms in the short run are earning above normal profits.

Explain what will happen to these profits in the long run for a market having perfect competition. Explain.

Normal profit is a situation where a firm makes sufficient revenue to cover its total costs and remain competitive in an industry. In measuring normal profit, we include the opportunity cost of working elsewhere. When a firm makes normal profit we say the economic profit is zero. Normal profit = total revenue – total costs Where total costs=Explicit costs (rent, labour costs, raw materials +)Implicit costs (opportunity cost of capital/working elsewhere

In perfect competition, there is freedom of entry and exit. If the industry was making supernormal profit, then new firms would enter the market until normal profits were made.

This is why normal profits will be made in the long run. At Q1 – AR=ATC



In short-run perfect competition profit of an individual firm can be maximized in a situation when marginal revenues (MR) equals to marginal cost (MC).

The firm is able to generate abnormal or supernormal profit in the short run for the duration of period when P1 price stays higher than the level of average cost (AC).

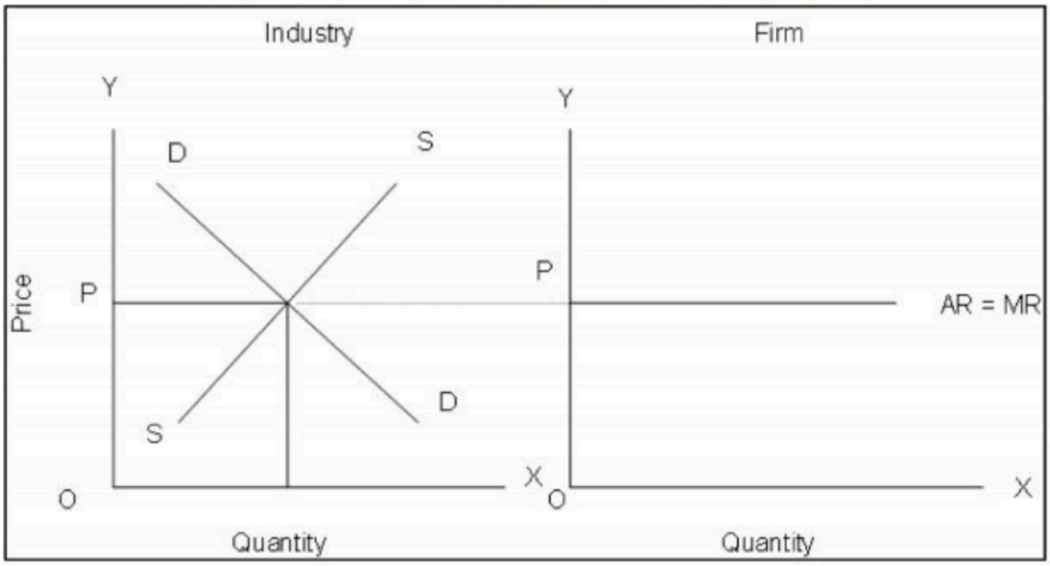
In a perfectly competitive market, a firm can earn a normal profit, super-normal profit, or it can bear a loss. At the equilibrium quantity, if the average cost is equal to the average revenue, then the firm is earning a normal profit.

PART - B

1. Explain how a firm attains equilibrium in the short run and in the long run under conditions of perfect competition.

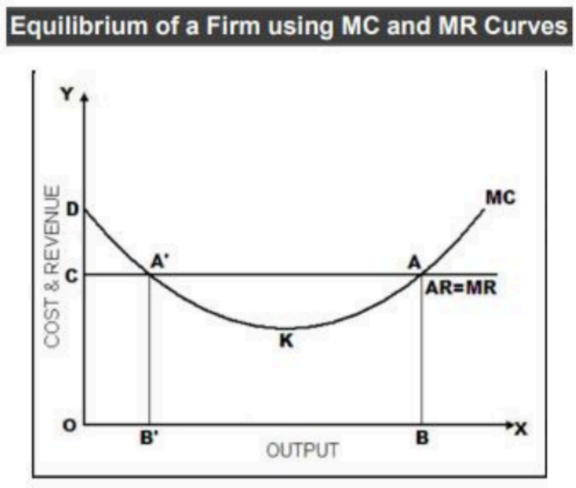
In a perfectly competitive market, a firm cannot change the price of a product by modifying the quantity of its output. Further, the input and cost conditions are given.
Therefore, the firm can alter the quantity of its output without changing the price of the product. We know that a firm is in equilibrium when its profits are

Determination of Market Price under Perfect Competition



maximum, which relies on the cost and revenue conditions of the firmIn perfect competition, the equilibrium of the market’s demand and supply determines the price.
All firms receive this price in a perfectly competitive market. Also, firms are the price- takers and the industry is the price-maker. The Average Revenue (AR) Curve is the demand curve of the firm as it can sell any quantity it wants at the market price
Short-run Equilibrium of a Competitive Firm. In the short-run, there the following assumptions:
The price of the product is given and the firm can sell any quantity at that price. The size of the plant of the firm is constant. The firm faces given short-run cost curves. We know that the necessary and sufficient conditions for the equilibrium of a firm are: MC = MRMC curve cuts the MR curve from belowIn other words,

the MC curve must intersect the MR curve from below and after the intersection lie above the MR curve. In simpler terms, the firm must keep adding to its output as long as MR>MC.This is because additional output adds more revenue than costs and increases its profits. Further, if MC=MR, but the firm finds that by adding to its output, MC becomes smaller than MR, then it must keep increasing its output.



Since it is a perfectly competitive market, the demand for the product of the firm is perfectly elastic. Further, it can sell all its output at the market price. Therefore, its demand curve runs parallel to the X-axis throughout its length and its MR curve coincides with the AR curve

In the short-run, the firm cannot avoid fixed costs. Even if the production is zero, the firm must incur these costs. Therefore, the firm cannot avoid losses by not producing and continues producing as long as its losses do not exceed its fixed costs. In other words, a firm produces as long as its average price equals or exceeds its AVC

In a perfectly competitive market, a firm can earn a normal profit, super-normal profit, or it can bear a loss. At the equilibrium quantity, if the average cost is equal to the average revenue, then the firm is earning a normal profit.

On the other hand, if the average cost is greater than the average revenue, then the firm is bearing a loss. However, if the average cost is less than average revenue, then the firm is earning super-normal profits.

Long run

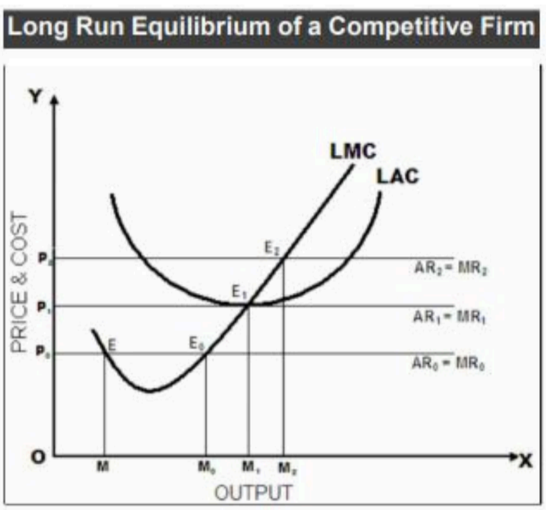
Long-term is the period in which the firm can vary all of its inputs. There are no fixed costs and therefore, the AFC or Average Fixed Cost curve vanishes. Also, the Average Cost (AC) curve represents the Average Total Cost (ATC) curve. Further, since the firm can vary all its inputs, it can close down and leave the industry.

We know that in the long-run, the AC curve which is formed by its short-run AC curves is also U-shaped. This means that up to a certain limit, the firm experiences increasing returns and the AC curve slopes downwards.

A phase of constant returns follows in which the AC curve neither rises nor falls. Subsequently, diminishing returns to scale phase starts in which the AC curve slopes upwards.

In the long-run, new firms can also enter the industry. This is the free entry and exit feature which has two implications:

There is no compulsion on the firm to operate under losses and it can leave the industry. No firm can earn super-normal profits. This is because when a firm earns super-normal profits, it attracts new firms to the industry. This leads to an increase in the supply which results in lowering the prices and normalizing of profits.



The figure above describes the determination of long-run equilibrium under perfect competition. As you can see, the output is measured along the X-axis and the costs along the Y-axis. Also, the firm is a price-taker.

Further, its AR curve runs parallel to the X-axis and the MR curve coincides with it

2 .Define monopoly. How is price under monopoly determined?

A monopoly refers to when a company and its product offerings dominate one sector or industry. Monopolies can be considered an extreme result of free-market capitalism in that absent any restriction or restraints, a single company or group becomes large enough to own all or nearly all of the market (goods, supplies, commodities, infrastructure, and assets) for a particular type of product or service. The term monopoly is often used to describe an entity that has total or near-total control of a market.Monopolies typically have an unfair advantage over their competition since they are either the only provider of a product or control most of the market share or customers for their product

A Monopolist being the only producer and seller of that commodity can determine its price and the quantity of its production or supply. He cannot do both the things simultaneously. Either he fixes the price and leaves the output to be determined by the consumer demand at that price or he can fix the output to be produced and leave the price to be determined by the consumers' demand for his product. But it is a common experience that he leaves the price to the market mechanism and determines the volume of output. Under no circumstances, he will be ready to bear losses.

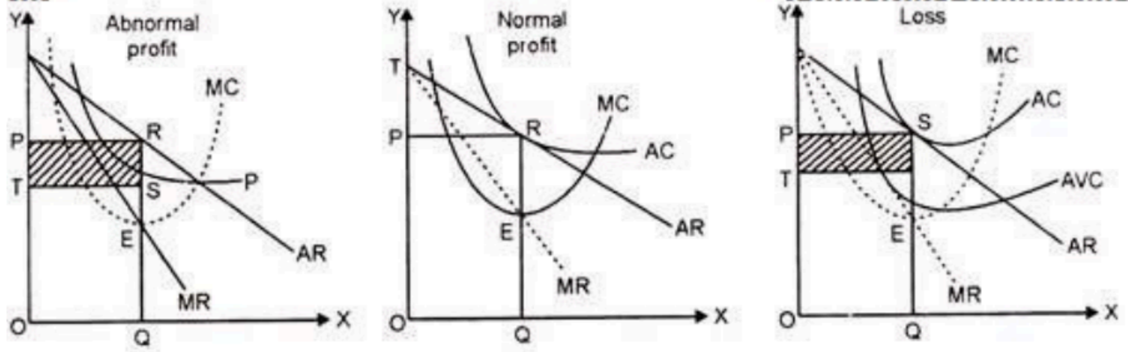
If, in a short period, the cost of production of a commodity is zero, he will go on producing it to the extent or so long the marginal revenue from the sale of that commodity does not fall to zero. As soon as the marginal reserve is zero he will not increase its supply

Some economists think that, in a short period, three different situations may arise before the monopolist:

(i) When the monopolist earns abnormal profits,

(ii) When he gets only normal profits, and

(iii) When he suffers losses



PRODUCTION

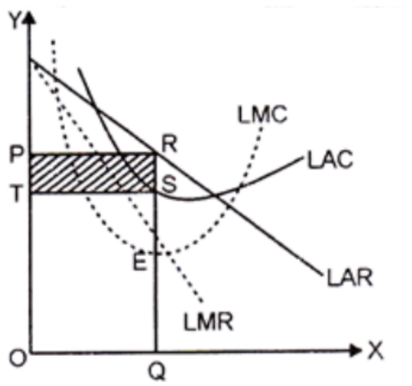
On the point E the firm is in equilibrium when MC = MR. Thereafter MC curve starts to rise. Under the condition, OP is the price and OQ is the 'total production' of the commodity so determined. In order to calculate profits or losses, we will have to measure the difference between AR and AC. If AR > AC, the difference between the two is profit per unit and by multiply it with total number of units produced we can get total profit.

In the first figure RQ = OP is the price, TO is the cost of production per unit. Thus, RS = PT is unit for profit. On the OQ quantity of production, total profit is PTSR shaded area which is abnormal profit. In the second figure RQ = OP is the determined price and RQ is the average cost. Under this condition, there will be only normal profit.

In the figure three also price per unit is RQ = OP but cost per unit is SQ. Thus, SR (TP) is loss per unit. As a result TPRS shaded area will be the total loss. But this loss is only short period phenomenon. In the long period, this loss will disappear, under that condition and situation, only profit will be earned.

Determination of Price in the Long Period

In the long period the monopolist introduces changes in his equipment's and techniques of production. During this period in order to gain excess profit, he will change efficiency and capacity of his resources according to his need. But the determination of the quantity of production follows, the same line as under short period.



PRODUCTION

In this figure LMC and LMR intersect each other at the point E and after that LMC goes on rising. Thus OQ production is determined and OP is the price. But average cost is SQ. So profit per unit is RS and at OQ output the total profit is PTSR.

Under Price Competition AR =MR, where-as under Monopoly MR <AR.

Under perfect competition price is determined by the interaction of total demand and supply. This price is acceptable to all the firms in the industry. No firm can change this price. So, average revenue and marginal revenue, at every level of production, will be constant and equal. Their curves are parallel to X-axis.

Under Monopoly, to sell every additional unit of the commodity price will have to be lower. In this way, with the sale of every additional unit, average and marginal income goes on falling. But the decrease in average revenue is relatively less sharp than the decrease in marginal revenue. It is because marginal revenue is limited to one unit, whereas in case of average revenue, the decrease price is divided by the number of units. Therefore, the fall in average revenue has relatively less slope. That is the reason why marginal revenue is less than average revenue.

3.Explain the role of time factor in the determination of price.Also explain price- O/P determination in case of perfect competition.

refer Part A -2nd click here

4.Explain the differences between perfect competition and monopoly.

The basic difference between Perfect Competition and Monopoly is that perfect competition involves a large number of sellers with a large number of buyers whereas a monopoly market has one single seller for a large number of buyers

Meaning of Perfect Competition:-It refers to the market in which there are many firms selling a certain homogenous product.

Meaning of Monopoly:-A monopoly market is a market structure in which a single firm is a sole producer of a product for which there are no close substitutes available in the market. Since there is only one seller in the market, it eliminates the rivals and direct competitors. Therefore, the monopolist has full control over its price. Hence,the seller in this market is not known as a price maker. The seller, by itself,determines the price and the quantity to be sold by him in the market.

Difference between Perfect Competition and Monopoly

Basis of Difference	Perfect Competition	Monopoly
Meaning	It refers to the market in which there are many firms selling a certain homogenous product.	Monopoly market is a market structure in which a single firm is a sole producer of a product for which there are no close substitutes available in the market
Output	Price is equal to the marginal cost at the equilibrium output.	Price is greater than the average cost at equilibrium output.
Equilibrium	It is possible only when MR=MC and MC cut the MR curve from below.	Equilibrium can be realized whether the MC is rising, constant or falling.
Barriers for entry of new firms	Here, there are no restrictions or barriers for new firms to enter the market.	It has strong restrictions for entry of new firms in the market.
Price Discrimination	There is no price discrimination by sellers as the prices are determined by supply and demand forces.	The monopolist can charge different prices from different groups of buyers.
Supply Curve	Here, the supply curve can be identified as all firms sell the desired quantity at the prevailing price.	In a monopoly, the supply curve cannot be known because of price discrimination.
Control over Price	Here, the sellers don't have any control over the price.	In this market, the seller has full control over the price.
Sellers are known as	In this market, the sellers are known as price takers.	In this market, the sellers are price makers.
Degree of Competition	This market has strong competition in the market.	There is no competition in the market.
Close Substitutes	In this market, the close substitutes are available.	There are no close substitutes of the products in this market.
Number of sellers	There are a large number of sellers with a large number of Buyers offering homogenous products.	There is only one single seller of a commodity with a large number of buyers.

5. Distinguish between perfect & imperfect markets. And What are the different market situations in imperfect competition.

Based on competition, the market structure has been classified into two broad categories like Perfectly competitive and Imperfectly competitive. Perfect Competition is not found in the real world market because it is based on many assumptions. But an Imperfect Competition is associated with a pracBased on competition, the market structure has been classified into two broad categories like Perfectly competitive and Imperfectly competitive. Perfect Competition is not found in the real world market because it is based on many assumptions. But an Imperfect Competition is associated with a practical approach.

The type of market structure decides the market share of a firm in the market. If there exists a single firm, it will serve the entire market, and the demand of the customers are satisfied with that firm only. But if we increase the number of firms to two, the market will also be shared by the two. Similarly, if there are about 100 small firms in the market, the market is shared by all of them in proportion. Therefore, it is the market structure, which affects the market. So here we are going to describe the differences between perfect competition and imperfect competition, in economicstical approach.

BASIS FOR COMPARISON	PERFECT COMPETITION	IMPERFECT COMPETITION
Meaning	Perfect Competition is a type of competitive market where there are numerous sellers selling homogeneous products or services to numerous buyers.	Imperfect Competition is an economic structure, which does not fulfill the conditions of the perfect competition.
Nature of concept	Theoretical	Practical
Product Differentiation	None	Slight to Substantial
Players	Many	Few to many
Restricted entry	No	Yes
Firms are	Price Takers	Price Makers

When at least one condition of a perfect market is not met, it can lead to an imperfect market. Every industry has some form of imperfection. Imperfect competition can be found in the following structures:

1) **Monopoly:**
   This is a structure in which there is only one (dominant) seller. Products offered by this entity have no substitutes. These markets have high barriers to entry and a single seller who sets the prices on goods and services. Prices can change without notice to consumers.
2) **Oligopoly:**
   This structure has many buyers but few sellers. These few players in the market may bar others from entering. They may set prices together or, in the case of a cartel, only one takes the lead to determine the price for goods and services while the others follow.
3) **Monopolistic Competition:**
   In monopolistic competition, there are many sellers who offer similar products that can't be substituted. Businesses compete with one another and are price makers, but their individual decisions do not affect the other.

4) **Monopsony and Oligopsony:**

These structures have many sellers, but few buyers. In both cases, the buyer is the one who manipulates market prices by playing firms against one another.

6.“Perfect competition results in larger O/P with lower price than a monopoly” Explain the statement.

A monopolistic market and a perfectly competitive market are two market structures that have several key distinctions in terms of market share, price control, and barriers to entry. In a monopolistic market, there is only one firm that dictates the price and supply levels of goods and services, and that firm has total market control. In contrast to a monopolistic market, a perfectly competitive market is composed of many firms, where no one firm has market control.

In a monopolistic market, firms are price makers because they control the prices of goods and services. In this type of market, prices are generally high for goods and services because firms have total control of the market. Firms have total market share, which creates difficult entry and exit points. Since barriers to entry in a monopolistic market are high, firms that manage to enter the market are still often dominated by one bigger firm.

In a market that experiences perfect competition, prices are dictated by supply and demand. Firms in a perfectly competitive market are all price takers because no one firm has enough market control. Unlike a monopolistic market, firms in a perfectly competitive market have a small market share. Barriers to entry are relatively low, and firms can enter and exit the market easily. Contrary to a monopolistic market, a perfectly competitive market has many buyers and sellers, and consumers can choose where they buy their Goods and sevices.

Under perfect competition price is equal to marginal cost at the equilibrium output. While under monopoly, the price is greater than average cost

The difference between price and marginal cost under monopoly results in super-normal profits to the monopolist. Under perfect competition, a firm in the long run enjoys only normal profits

Monopoly price is higher than perfect competition price. In long period, under perfect competition, price is equal to average cost. In monopoly, price is higher as is shown in Fig. 11. The perfect competition price is OP1, whereas monopoly price is OP. In equilibrium, monopoly sells ON output at OP price but a perfectly competitive firm sells higher output ON1 at lower price OP1.

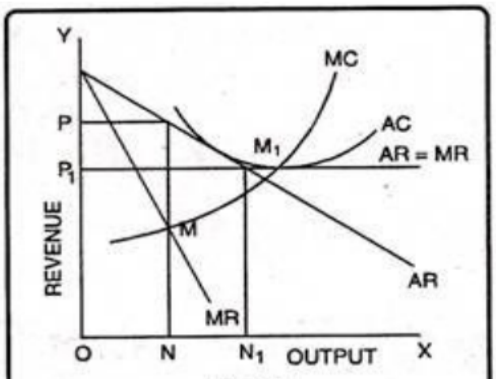


Fig. 11.

Comparison of Output:Perfect competition output is higher than monopoly price. Under perfect competition the firm is in equilibrium at point M1 (As shown in Fig. 11 (a)), AR = MR = AC = MC are equal. The equilibrium output is ON1. On the other hand monopoly firm is in equilibrium at point M where MC=MR. The equilibrium output is ON. The monopoly output is lower than perfectly competitive firm output

7.Recall the features of Monopoly.

In a monopoly market, usually, there is a single firm which produces and/or supplies a particular product/ commodity. It is fair to say that such a firm constitutes the entire industry. Also, there is no distinction between the firm and the industry

Features of a monopoly market:

1. Single Seller of the Product:

The following are the features of monopoly:

- **Single person or a firm:** A single person or a firm controls the total supply of the commodity. There will be no competition for monopoly firm. The monopolist firm is the only firm in the whole industry.
- **No close substitute:** The goods sold by the monopolist shall not have closely competition substitutes. Even if price of monopoly product increase people will not go in far substitute. For example: If the price of electric bulb increase slightly, consumer will not go in for kerosene lamp.

- ➢ **Large number of Buyers:** Under monopoly, there may be a large number of buyers in the market who compete among themselves
- ➢ **Price Maker:** Since the monopolist controls the whole supply of a commodity, he is a price-maker, and then he can alter the price.
- ➢ **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 as much as he wishes for any price he pleases.
- ➢ **Downward Sloping Demand Curve:** The demand curve (average revenue curve) of monopolist slopes downward from left to right. It means that he can sell more only by lowering price.

8. Explain the following (a)Monopoly (B) Duopoly (c)Oligopoly (d) imperfect competition.

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.

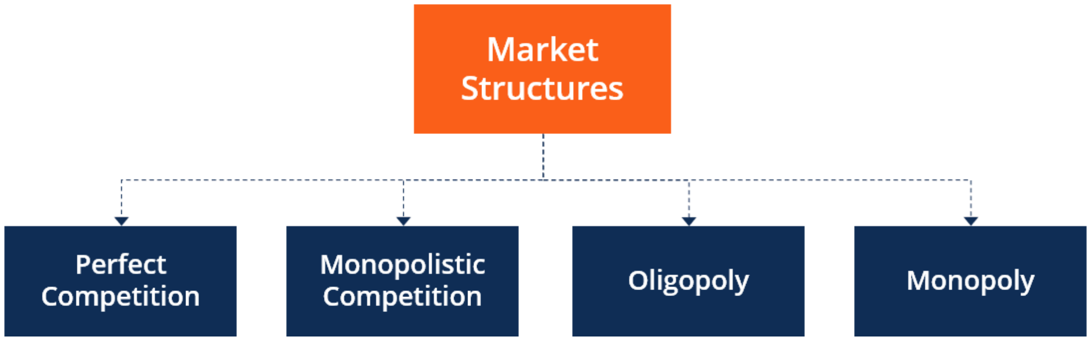
Duopoly: Duopoly refers to a market situation in which there are only two sellers. As there are only two sellers any decision taken by one seller will have reaction from the other Eg. Coca-Cola and Pepsi. Usually these two sellers may agree to co- operate each other and share the market equally between them, So that they can avoid harmful competition.The duopoly price, in the long run, may be a monopoly price or competitive price, or it may settle at any level between the monopoly price and competitive price. In the short period, duopoly price may even fall below the level competitive price with the both the firms earning less than even the normal price.

Oligopoly: The term oligopoly is derived from two Greek words, oligos meaning a few, and pollen meaning to sell. Oligopoly is the form of imperfect competition where there are a few firms in the market, producing either a homogeneous product or producing products, which are close but not perfect substitute of each other.

Imperfect market: An imperfect market refers to any economic market that does not meet the rigorous standards of the hypothetical perfectly—or purely—competitive market. Pure or perfect competition is an abstract, theoretical market structure in which a series of criteria are met.

9.What is a market? Explain, in brief, the different market structures.

Market structure, in economics, refers to how different industries are classified and differentiated based on their degree and nature of competition for goods and services. It is based on the characteristics that influence the behavior and outcomes of companies working in a specific market



Some of the factors that determine a market structure include the number of buyers and sellers, ability to negotiate, degree of concentration, degree of differentiation of products, and the ease or difficulty of entering and exiting the market

Market structure refers to how different industries are classified and differentiated based on their degree and nature of competition for services and goods.The four popular types of market structures include perfect competition, oligopoly market, monopoly market, and monopolistic competition.Market structures show the relations between sellers and other sellers, sellers to buyers, or more

Types of Market Structures

1. **Perfect Competition:**

   Perfect competition occurs when there is a large number of small companies competing against each other. They sell similar products (homogeneous), lack price influence over the commodities, and are free to enter or exit the market. Consumers in this type of market have full knowledge of the goods being sold.

They are aware of the prices charged on them and the product branding. In the real world, the pure form of this type of market structure rarely exists. However, it is useful when comparing companies with similar features. This market is unrealistic as it faces some significant criticisms described below.

No incentive for innovation: In the real world, if competition exists and a company holds a dominant market share, there is a tendency to increase innovation to beat the competitors and maintain the status quo. However, in a perfectly competitive market, the profit margin is fixed, and sellers cannot increase prices, or they will lose their customers.

There are very few barriers to entry: Any company can enter the market and start selling the product. Therefore, incumbents must stay proactive to maintain market share.

2. Monopolistic Competition:

Monopolistic competition refers to an imperfectly competitive market with the traits of both the monopoly and competitive market. Sellers compete among themselves and can differentiate their goods in terms of quality and branding to look different. In this type of competition, sellers consider the price charged by their competitors and ignore the impact of their own prices on their competition. When comparing monopolistic competition in the short term and long term, there are two distinct aspects that are observed. In the short term, the monopolistic company maximizes its profits and enjoys all the benefits as a monopoly. The company initially produces many products as the demand is high. Therefore, its Marginal Revenue (MR) corresponds to its Marginal Cost (MC). However, MR diminishes over time as new companies enter the market with differentiated products affecting demand, leading to less profit

3.Oligopoly:

An oligopoly market consists of a small number of large companies that sell differentiated or identical products. Since there are few players in the market, their competitive strategies are dependent on each other.

For example, if one of the actors decides to reduce the price of its products, the action will trigger other actors to lower their prices, too. On the other hand, a price increase may influence others not to take any action in the anticipation consumers will opt for their products. Therefore, strategic planning by these types of players is a must.

In a situation where companies mutually compete, they may create agreements to share the market by restricting production, leading to supernormal profits. This holds if either party honors the Nash equilibrium state and neither is tempted to engage in the prisoner's dilemma. In such an agreement, they work like monopolies. The collusion is referred to as cartels.

4.Monopoly:

In a monopoly market, a single company represents the whole industry. It has no competitor, and it is the sole seller of products in the entire market. This type of market is characterized by factors such as the sole claim to ownership of resources, patent and copyright, licenses issued by the government, or high initial setup costs. All the above characteristics associated with monopoly restrict other companies from entering the market. The company, therefore, remains a single seller because it has the power to control the market and set prices for its goods.

10. Monopoly is disappearing from markets. Do you agree with this statement? Do you advocate for monopoly to continue in market situations?

Part A-4 click here

11. Define a joint stock company & explain its basic features,advantages & disadvantages.

The simplest way to describe a joint stock company is that it is a business organization that is owned jointly by all its shareholders. All the shareholders own a certain amount of stock in the company, which is represented by their shares. Professor Haney defines it as "a voluntary association of persons for profit, having the capital divided into some transferable shares, and the ownership of such shares is the condition of membership of the company." Studying the features of a joint stock company will clarify its structure.

Features of a Joint Stock Company:

1] Artificial Legal Person:

A company is a legal entity that has been created by the statues of law. Like a natural person, it can do certain things, like own property in its name, enter into a

contract, borrow and lend money, sue or be sued, etc. It has also been granted certain rights by the law which it enjoys through its board of directors.
However, not all laws/rights/duties apply to a company. It exists only in the law and not in any physical form. So we call it an artificial legal person.

2] Separate Legal Entity:

Unlike a proprietorship or partnership, the legal identity of a company and its members are separate. As soon as the joint stock company is incorporated it has its own distinct legal identity. So a member of the company is not liable for the company. And similarly, the company will not depend on any of its members for any business activities.

3] Incorporation:

For a company to be recognized as a separate legal entity and for it to come into existence, it has to be incorporated. Not registering a joint stock company is not an option. Without incorporation, a company simply does not exist.

4] Perpetual Succession:

The joint stock company is born out of the law, so the only way for the company to end is by the functioning of law. So the life of a company is in no way related to the life of its members. Members or shareholders of a company keep changing, but this does not affect the company's life.

5] Limited Liability:

This is one of the major points of difference between a company and a sole proprietorship and partnership. The liability of the shareholders of a company is limited. The personal assets of a member cannot be liquidated to repay the debts of a company.
A shareholders liability is limited to the amount of unpaid share capital. If his shares are fully paid then he has no liability. The amount of debt has no bearing on this.
Only the companies assets can be sold off to repay its own debt. The members cannot be made to pay up.

6] Common Seal:

A company is an artificial person. So its day-to-day functions are conducted by the board of directors. So when a company enters any contract or signs an agreement, the approval is indicated via a common seal. A common seal is engraved seal with the company's name on it.
So no document is legally binding on the company until and unless it has a

common seal along with the signatures of the directors.

7] Transferability of Shares:

In a joint stock company, the ownership is divided into transferable units known as shares. In case of a public company the shares can be transferred

Advantages

➢ **Mobilization of larger resources:** A joint stock company provides opportunity for the investors to invest, even small sums, in the capital of large companies. The facilities rising of larger resources.

➢ **Separate legal entity:** The Company has separate legal entity. It is registered under Indian Companies Act, 1956.

➢ **Limited liability:** The shareholder has limited liability in respect of the shares held by him. In no case, does his liability exceed more than the face value of the shares allotted to him.

➢ **Transferability of shares:** The shares can be transferred to others. However, the private company shares cannot be transferred

➢ **Liquidity of investments:** By providing the transferability of shares, shares can be converted into cash.

➢ **Inculcates the habit of savings and investments:** Because the share face value is very low, this promotes the habit of saving among the common man and mobilizes the same towards investments in the company.

➢ **Democracy in management:** the shareholders elect the directors in a democratic way in the general body meetings. The shareholders are free to make any proposals, question the practice of the management, suggest the possible remedial measures, as they perceive, The directors respond to the issue raised by the shareholders and have to justify their actions.

➢ **Economics of large scale production:** Since the production is in the scale with large funds at

➢ **Continued existence:** The Company has perpetual succession. It has no natural end. It continues forever and ever unless law put an end to it.

Disadvantages:

➢ **Formation of company is a long drawn procedure:** Promoting a joint stock company involves a long drawn procedure. It is expensive and involves large number of legal formalities.

➢ **High degree of government interference:** The government brings out a number of rules and regulations governing the internal conduct of the operations of a company such as meetings, voting, audit and so on, and any violation of these rules results into statutory lapses, punishable under the companies act.

- **Inordinate delays in decision-making:** As the size of the organization grows, the number of levels in organization also increases in the name of specialization. The more the number of levels, the more is the delay in decision-making. Sometimes, so-called professionals do not respond to the urgencies as required. It promotes delay in administration, which is referred to 'red tape and bureaucracy'.
- **Lack or initiative:** In most of the cases, the employees of the company at different levels show slack in their personal initiative with the result, the opportunities once missed do not recur and the company loses the revenue.
- **Lack of responsibility and commitment:** In some cases, the managers at different levels are afraid to take risk and more worried about their jobs rather than the huge funds invested in the capital of the company lose the revenue.
- **Lack of responsibility and commitment:** In some cases, the managers at different levels are afraid to take risk and more worried about their jobs rather than the huge funds invested in the capital of the company. Where managers do not show up willingness to take responsibility, they cannot be considered as committed. They will not be able to handle the business risks.

12.Recall (a) Sole trader (b)Stationery corporation

Sole trader:

The sole trader is the simplest, oldest and natural form of business organization. It is also called sole proprietorship. 'Sole' means one. 'Sole trader' implies that there is only one trader who is the owner of the business.

It is a one-man form of organization wherein the trader assumes all the risk of ownership carrying out the business with his own capital, skill and intelligence. He is the boss for himself. He has total operational freedom. He is the owner, Manager and controller. He has total freedom and flexibility. Full control lies with him. He can take his own decisions. He can choose or drop a particular product or business based on its merits. He need not discuss this with anybody. He is responsible for himself. This form of organization is popular all over the world. Restaurants, Supermarkets, pan shops, medical shops, hosiery shops etc.

Features

- It is easy to start a business under this form and also easy to close.
- He introduces his own capital. Sometimes, he may borrow, if necessary
- He enjoys all the profits and in case of loss, he lone suffers.
- He has unlimited liability which implies that his liability extends to his personal properties in case of loss.
- He has a high degree of flexibility to shift from one business to the other.
- Business secretes can be guarded well
- There is no continuity. The business comes to a close with the death, illness or insanity of the sole trader. Unless, the legal heirs show interest to continue the business, the business cannot be restored.

Advantages

1. **Easy to start and easy to close:** Formation of a sole trader from of organization is relatively easy even closing the business is easy.
2. **Personal contact with customers directly:** Based on the tastes and preferences of the customers the stocks can be maintained
3. **Prompt decision-making:** To improve the quality of services to the customers, he can take any decision and implement the same promptly. He is the boss and he is responsible for his business Decisions relating to growth or expansion can be made promptly
4. **High degree of flexibility:** Based on the profitability, the trader can decide to continue or change the business, if need be.
5. **Secrecy:** Business secrets can well be maintained because there is only one trader.
6. **Low rate of taxation:** The rate of income tax for sole traders is relatively very low.

Disadvantages

1. **Unlimited liability:** The liability of the sole trader is unlimited. It means that the sole trader has to bring his personal property to clear off the loans of his business. From the legal point of view, he is not different from his business.
2. **Limited amounts of capital:** The resources a sole trader can mobilize cannot be very large and hence this naturally sets a limit for the scale of operations.
3. **No division of labor:** All the work related to different functions such as marketing, production, finance, labor and so on has to be taken care of by the sole trader himself. There is nobody else to take his burden. Family members and relatives cannot show as much interest as the trader takes

.

4. **Uncertainty:** There is no continuity in the duration of the business. On the death, insanity of insolvency the business may be come to an end.
5. **Inadequate for growth and expansion:** This form is suitable for only small size, one-man-show type of organizations. This may not really work out for growing and expanding organizations.

Corporation - This is one of the best-known and most widely used business forms. The government views a corporation as a separate legal entity from its owners.

Therefore, a corporation provides liability protection for its owners or shareholders. A corporation is liable for its own debts and can only be held liable for its assets (which is the amount the owners have invested in the corporation's stock).

Shareholders are not responsible for debts of corporation.

The corporation is subject to federal and state taxation. Corporate income tax is taxed at the corporate level. If dividends are distributed to shareholders, it is taxed again at the individual level. A small business that's incorporated may avoid this double taxation by paying a salary to the employee shareholder. Earnings can be used for future investment in the company or paid to shareholders in the form of a cash or stock dividend. A corporation has a perpetual life. This means it goes on even if the owner(s) sell the business or die. Forming a corporation is more complicated and costly than forming other types of businesses. Articles of incorporation must be filed with the office of secretary of state in the state in which the corporation is organized. This is not necessarily the state in which the corporation will do business. However, the certificate of incorporation must be recorded in the states in which you do business. The corporation must have its own name. It must be unique and not used by another corporation.Ownership of a corporation can be transferred by sale of all or a portion of the shares. Owners can be added by selling authorized stock from the corporation or by having the current owners sell some of their stock. Small businesses that are corporations are often owned by a small group of shareholders that all work in the business.

13. Explain basic features of Government Company from public enterprise.

Government Company is a company or an organization in which at least 51% of the paid up share capital is held by the central government or the state government or partly by both central and state government. These are many government companies, few of them are, Steel Authority of India Limited, Bharat Heavy Electricals Limited, Coal India Limited, State Trading Corporation of India, etc.

- The public sector companies in India were incorporated into two main objectives: To achieve more equity in the distribution of wealth and income amongst the citizens of the country.
- To gain the momentum in the growth of the nation

Features of a Government Company:

- It is a separate legal entity.
- It is incorporated under Companies Act 1956 & 2013.
- The management is governed and regulated by the provisions of Companies Act.
- The Memorandum of Association and Articles of Association govern the appointment of employees.
- A government company gets its funding from government shareholding and other private shareholdings. The company can also raise money from the capital market.
- A government company is audited by the agency appointed by the central government. This agency is mainly Comptroller and Auditor General of India (C&AG)

Merits of a Government Company:

- To incorporate a government company, all the provisions of the Companies Act are to be followed.
- The government organization enjoys all autonomy in management decisions and flexibility in day to day activities.
- These companies control the local market and sustain it to curb the unhealthy business practices.

Limitations of a Government Company

- These companies face a lot of government interference and involvement of government officials, ministers, and politicians.
- As these companies are financed by the government, so these companies evade all constitutional responsibilities of not answering to the parliament.
- The efficient operations of the company are hampered, as the board of the

company comprises mainly of politicians and civil servants, who have more emphasis and interest in pleasing their political party co-workers or owners and less concentrated on growth and development of the company.

14. What do you mean by sole proprietorship? Explain its meant and limitations.

A Sole proprietorship can be explained as a kind of business or an organization that is owned, controlled and operated by a single individual who is the sole beneficiary of all profits or loss, and responsible for all risks. It is a popular kind of business, especially suitable for small business at least for its initial years of operation. This type of businesses is usually a specialized service such as hair salons, beauty parlors, or small retail shops

Features of Sole Proprietorship:

(1) Formation and Closure:

This type of business organization is formed by the owner himself.No legal conventions are obliged to start the sole proprietorship form of organization.In some instances, the legal formalities are required or the owner should have a particular license or a certificate to run the business.The owner can close the business at his own discretion.Example: Goldsmith or a person running a medical shop should have a license to run this type of business.

(2) Liability:

In the sole proprietorship business, the sole owner has unlimited liability.In this case, the owner is himself liable to pay all the liabilities. If he takes a loan for its business then he will be liable for all the debts.Hence, he is personally liable for all the debt which can be recovered by his personal estate when funds are insufficient.Example: A loan taken by the owner of the sweet shop is solely responsible for the repayment of the loan to the bank.

(3) Sole Risk Bearer and Profit Recipient:

A sole proprietor is only the one who bears all risks which are related to its business.All the profits or losses which are earned from the business are to be enjoyed by the sole owner.

(4) Control:

As all the rights and responsibilities lie with the sole proprietor that is why he controls all the business activities.No one can interfere in the business activities of a sole proprietor.Hence, only the sole proprietor can modify his plans accordingly.

(5) No Separate Entity:

According to the accounting system, the owner and the business are considered as two separate entities.But the law does not make any distinction between the sole trader and its business.Hence, without the sole trader, the business has no identity because he is the only person who performs all the business activities.

(6) Lack of Business Continuity:

Death, imprisonment, physical ailment, insanity or bankruptcy of the sole proprietor will directly affect the business or it may cause shutting down of the business.In the case of the beneficiary, successor or legal heir of sole proprietor, he can run the business on behalf of the proprietor

Advantages of Sole Proprietorship:

Some of the popular advantages of a sole proprietorship are:

Quick decision making– A sole proprietor has the freedom to make any decision. Therefore, the decision would be prompt as they don't have to take the permission of others.

Confidentiality of information- Being only the owner of the business, it allows him/her to keep all the business information to be private and confidential.

Direct incentive- A sole proprietor directly has the right to have all the profit or benefits of a company.

Sense of accomplishment- He/she can have the personal satisfaction associated with working without any guidance or alone.Ease of formation and closure- A single proprietor can enter the business with minimum legal formalities.

Limitations of a Sole Proprietorship:

Some of the primary limitations of a sole proprietorship are as follows:

(1) Limited Resources:

Resources of a sole proprietor are limited to his savings and borrowings from the relatives.Banks also hesitate or deny giving the long term loans or extend the limit of long term loans due to the weak financial position of the business.Lack of all these resources results in hindrance in the growth of the sole proprietorship businessAbove mentioned are the reason why the business generally remains small.

(2) Life of a Business Concern:

The owner and its business is the same entity and due to lack of successor or heir, the life of the business is limited.Due to death, insolvency, illness of a proprietor gives a detrimental impact on the business which results in closure of the business.

(3) Unlimited Liability:

The major demerit of a sole proprietorship is that the owner has unlimited liability.If the sole owner becomes fails to pay the debts, due to the failure of a business, the creditors would not only claim from business assets but also from his personal estate.Taking a large amount of loan is too risky and also put the burden on the sole owner of the business.Hence, this is the reason why sole traders do not intend to take the risk for the survival and growth of the business.

(4) Limited Managerial Ability:

The sole proprietor has to accept all the responsibilities to carry out its business.Sometimes the proprietor has to perform all the managerial functions like sales, purchase, marketing, selling, dealings with clients, etc.He may not be able to employ and retain aspiring employees

15. Define partnership from of business. Explain its salient features.

Partnership is an improved from of sole trader in certain respects. Where there are like minded persons with resources, they can come together to do the business and share the profits/losses of the business in an agreed ratio. Persons who have entered into such an agreement are individually called ‘partners’ and collectively called ‘firm’. The relationship among partners is called a partnership.Indian Partnership Act, 1932 defines partnership as the relationship between two or more persons who agree to share the profits of the business carried on by all or any one of them acting for all

Features

1. Relationship: Partnership is a relationship among persons. It is relationship resulting out of an agreement
2. Two or more persons: There should be two or more number of persons.
3. There should be a business: Business should be conducted.
4. Agreement: Persons should agree to share the profits/losses of the

business

5. Carried on by all or any one of them acting for all: The business can be carried on by all or any one of the persons acting for all. This means that the business can be carried on by one person who is the agent for all other persons. Every partner is both an agent and a principal. Agent for other partners and principal for himself. All the partners are agents and the 'partnership' is their principal.

The following are the other features:

(a) **Unlimited liability:** The liability of the partners is unlimited. The partnership and partners, in the eye of law, and not different but one and the same. Hence, the partners have to bring their personal assets to clear the losses of the firm, if any.

(b) **Number of partners:** According to the Indian Partnership Act, the minimum number of partners should be two and the maximum number if restricted, as given below:• 10 partners is case of banking business• 20 in case of non-banking business

(c) **Division of labor:** Because there are more than two persons, the work can be divided among the partners based on their aptitude.

(d) **Personal contact with customers:** The partners can continuously be in touch with the customers to monitor their requirements.(e) Flexibility: All the partners are like minded persons and hence they can take any decision relating to business

16.Explain the features of the following (a) public company(b) Government Company (c)Private Company.

Features:

Public company

A public Limited Company is a company with limited liability and offers shares to the general public. Further the stock of Public Limited Company can be acquired by anyone through IPO or via trades.

Features of a Public Limited CompanyPaid-up Capital – There is no requirement of a minimum paid-up capital. Hence, you can incorporate a public company with any amount of capital.

Minimum number of Directors – You need a minimum of 3 directors to incorporate a public company with a maximum of 15 directors. However, no. of directors can exceed 15 after obtaining Special Resolution.

Minimum number of Shareholders – You need a minimum of 7 members to incorporate a public company.

Name of the company – Every public company must have the word “Limited” at the end of the company name.

Transfer of shares – There are no restrictions on the transfer of shares in a public company.

Liability – The liability of each member of a public company cannot exceed the amount of investment in shares of the member. This limit is non-extendable.

Issue of securities – There is no restriction on the issue of securities to the public. The company can issue the same via an initial public offer (IPO) or a bonus issue through private placement. Also, the company needs to issue the securities in the Dematerialised format.

Issue of securities – There is no restriction on the issue of securities to the public. The company can issue the same via an initial public offer (IPO) or a bonus issue through private placement. Also, the company needs to issue the securities in the Dematerialised format.

Quorum – Every public company must have at least five members personally present to form a quorum to constitute the meeting if the number of members as on the date of the meeting is not more than one thousand.

Managerial Remuneration – In a public company, the managerial remuneration paid to the director and manager should not exceed 11% of the net profits of the company subject to other provisions of the law.

Government Company

The following are the features of a government company:

1. **Like any other registered company:** It is incorporated as a registered company under the Indian companies Act. 1956. Like any other company, the government company has separate legal existence. Common seal, perpetual succession, limited liability, and so on. The provisions of the Indian Companies Act apply for all matters relating to formation, administration and winding up. However, the government has a right to exempt the application of any provisions of the government companies.
2. **Shareholding:** The majority of the share are held by the Government, Central or State, partly by the Central and State Government(s), in the name of

the President of India, It is also common that the collaborators and allotted some shares for providing the transfer of technology.

3. **Directors are nominated:** As the government is the owner of the entire or majority of the share capital of the company, it has freedom to nominate the directors to the Board. Government may consider the requirements of the company in terms of necessary specialization and appoints the directors accordingly.

4. **Administrative autonomy and financial freedom:** A government company functions independently with full discretion and in the normal administration of affairs of the undertaking.

5. **Subject to ministerial control:** Concerned minister may act as the immediate boss. It is because it is the government that nominates the directors, the minister issue directions for a company and he can call for information related to the progress and affairs of the company any time

Private company

No minimum capital required: There was a minimum paid-up share capital requirement of Rs. 1 lakh previously, but that is omitted now.

Minimum 2 and maximum 200 members: A private company can have a minimum of just two members (but just one is enough if it is a One Person Company), and a maximum of up to 200 members.

Transferability of shares restricted: Private companies cannot freely transfer their shares to the public like public companies. This is why stock exchanges never list private companies."Private Limited": All private companies must include the words "Private Limited" or "Pvt. Ltd." in their names.

Privileges and exemptions: Since private companies do not freely transfer their shares and involve limited interest by members, the law has granted them several exemptions that public companies do not enjoy.

17.Outline the need of public enterprises? Explain the recent achievement of public enterprises.

Public enterprises are playing an important role in the economic development of developing countries. They are involved in various sectors of economy. They play an active role in fulfilling the needs of people.

1. Planned Development

Most developing countries have five years development plans for economic development. Public enterprises are given specific roles and targets in such plans. Public sector programs are also implemented by public enterprises. They are important for planned development of the country.

2. Infrastructure Development

Infrastructure consists of transport, communication, power, irrigation, drinking water and buildings. They require huge investment and long period is required to complete them. Private sector is not interested in such investment. Public enterprises are important to build infrastructure in the country.

3. Basic and heavy industries development

Iron and steel, electricity, cement, fertilizer, petroleum and telecommunication are examples of basic and heavy industries. They are essential for industrialization of the country. Private sector lacks resources and interest to invest in such industries. Public enterprises are important for the establishment of basic and heavy industries.

Defense production is generally done by public enterprises

4. Public utilities concerns

Public utilities consists of services. They can be water supply, electricity, oil and gas, railways, airlines, public transport and telecommunications. They are essential for public welfare. Government has responsibility to provide such services at reasonable price. Public enterprises are important to provide public utility services at low cost.

5. Balanced development

Government requires balanced development in all regions of the country. Private sector is not attracted to less developed regions because of low economic gain. Public enterprises are important for industrial development of backward regions.

Achievements of public enterprises

1. Set up industries in strategic and core sectors.
2. Provided basic infrastructure facilities at affordable costs.
3. Promoted balanced regional development by setting up industries in backward areas.
4. Restricted the growth of private monopolies and protected consumers

against the evils of private monopolies.

5. Generated large scale employment opportunities and contributed to the reduction in unemployment

18.What is a partnership deed?Discuss the main contents partnership deed.

The written agreement among the partners is called 'the partnership deed'. It contains the terms and conditions governing the working of partnership. The following are contents of the partnership deed.

1. Names and addresses of the firm and partners
2. Nature of the business proposed
3. Duration
4. Amount of capital of the partnership and the ratio for contribution by each of the partners.
5. Their profit sharing ration (this is used for sharing losses also)
6. Rate of interest charged on capital contributed, loans taken from the partnership and the amounts drawn, if any, by the partners from their respective capital balances.
7. The amount of salary or commission payable to any partner
8. Procedure to value good will of the firm at the time of admission of a new partner, retirement of death of a partner
9. Allocation of responsibilities of the partners in the firm
10. Procedure for dissolution of the firm
11. Name of the arbitrator to whom the disputes, if any, can be referred to for settlement.
12. Special rights, obligations and liabilities of partners(s), if any

19. Explain in basic features of Government Company from of public enterprise.

Part-B -13 click here

20. 'Small is beautiful'. Do you think, this is the reason for the survival of the sole trader form of business organization? Analyze your answer with suitable examples.

PART C

1. Define market? Write few lines on Market Structure

Ans)part b -9 click here

2. What do you understand about Product differentiation?

Ans)Product differentiation (or just differentiation) is a marketing process of differentiating an offering (product or service) from others in the market to make it more appealing to the target audience.

It involves defining the offering's unique position in the market by explaining the unique benefit it provides to the target group. This may also be referred to pinpointing a unique selling proposition of the product to make it stand out from the crowd.

3. Write a short note on Perfect competition

Ans)Perfect competition describes a market structure where competition is at its greatest possible level. To make it more clear, a market which exhibits the following characteristics in its structure is said to show perfect competition:

1. Large number of buyers and sellers
2. Homogenous product is produced by every firm
3. Free entry and exit of firms
4. Zero advertising cost
5. Consumers have perfect knowledge about the market and are well aware of any changes in the market. Consumers indulge in rational decision making.
6. All the factors of production, viz. labor, capital, etc, have perfect mobility in the market and are not hindered by any market factors or market forces.
7. No government intervention

8. No transportation costs
9. Each firm earns normal profits and no firms can earn super-normal profits.
10. Every firm is a price taker. It takes the price as decided by the forces of demand and supply. No firm can influence the price of the product.

4. List out the features of Perfect Market.

Ans)The basic attributes which characterize a perfect market are:

Large number of buyers and sellers, so that no single buyer or seller by their action can influence the total supply or price of the commodity

Homogenous products, such that they are perfect substitutes of each other

Perfect information availability, buyers and sellers have perfect knowledge of the market conditions

No barriers to entry and exit

Uniform or single price as every participant is a price taker and no participant has market power to set prices

No externalities, that means it does not affect third parties which also includes governments and there are no government controls

Rational buyers which means they undertake only those trades which increases the economic utility and not those which decreases it

Perfect mobility of factors that is factors of production can freely move from one industry to another or can freely make adjustments in the long term to changing market conditions

Zero transaction costs are incurred while making an exchange

5. Illustrate about Monopolistic competition.

Ans)Monopolistic competition is a middle ground between monopoly and perfect competition (a purely theoretical state) and combines elements of each. The term was first used in the 1930s by economists Edward Chamberlain and Joan Robinson, to describe the competition between firms with similar, but not identical, product offerings.1 All firms in monopolistic competition have the same relatively low degree of market power; they are all price makers.

In the long run, demand is highly elastic, meaning that it is sensitive to price changes. In the short run, economic profit is positive, but it approaches zero in the long run. Firms in monopolistic competition tend to advertise heavily

6. Define Monopoly Competition and features of monopoly competition.

Ans) 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 of monopoly:

The following are the features of monopoly

1. Single person or a firm: A single person or a firm controls the total supply of the commodity. There will be no competition for monopoly firm. The monopolist firm is the only firm in the whole industry.
2. No close substitute: The goods sold by the monopolist shall not have closely competition substitutes. Even if price of monopoly product increase people will not go in far substitute. For example: If the price of electric bulb increase slightly, consumer will not go in for kerosene lamp.
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, and then 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 as much as he wishes for any price he pleases.
6. Downward Sloping Demand Curve: The demand curve (average revenue curve) of monopolist slopes downward from left to right. It means that he can sell more only by lowering price.

7. Differentiate between Perfect market and Imperfect market.

Ans) Part b -5

8. Write about Duopoly with examples.

Ans) Duopoly refers to a market situation in which there are only two sellers. As there are only two sellers any decision taken by one seller will have reaction from the other

Eg. Coca-Cola and Pepsi. Usually these two sellers may agree to co-operate each other and share the market equally between them, So that they can avoid harmful competition

9. Define Oligopoly with suitable examples.

Ans)The term oligopoly is derived from two Greek words, oligos meaning a few, and pollen meaning to sell. Oligopoly is the form of imperfect competition where there are a few firms in the market, producing either a homogeneous product or producing products, which are close but not perfect substitute of each other.
Examples of oligopoly abound and include the auto industry, cable television, and commercial air travel

10. What is meant by Total revenue, Average revenue and Marginal Revenue.

Ans)Total revenue is the total amount of money a company brings in from selling its goods and services. It determines how well a company is bringing in money from its core operations based on demand and price
Average revenue is referred to as the revenue that is earned per unit of output. In other words, it is the revenue that is obtained by the seller on selling each unit of the commodity. Average revenue of a business is obtained by dividing the total revenue with the total output
Marginal revenue (MR) is the increase in revenue that results from the sale of one additional unit of output. While marginal revenue can remain constant over a certain level of output, it follows from the law of diminishing returns and will eventually slow down as the output level increases,

11. Contrast on the features of sole trader

Ans)

- It is easy to start a business under this form and also easy to close
- He introduces his own capital. Sometimes, he may borrow, if necessary
- He has a high degree of flexibility to shift from one business to the other.
- Business secretes can be guarded well
- There is no continuity. The business comes to a close with the death, illness or insanity of the sole trader. Unless, the legal heirs show interest to continue the business, the business cannot be restored.
- He has total operational freedom. He is the owner, manager and controller.
- He can be directly in touch with the customers.
- He can take decisions very fast and implement them promptly.
- Rates of tax, for example, income tax and so on are comparatively very low.

12. What is meant by Partnership business?

Ans)Partnership is an improved from of sole trader in certain respects. Where there are like minded persons with resources, they can come together to do the business and share the profits/losses of the business in an agreed ratio. Persons who have entered into such an agreement are individually called ‘partners’ and collectively called ‘firm’. The relationship among partners is called a partnership.Indian Partnership Act, 1932 defines partnership as the relationship between two or more persons who agree to share the profits of the business carried on by all or any one of them acting for all.

13. Differentiate between Sole trader and partnership.

Ans)

Sr.No	Sole trader	Partnership
1	No legal formalities.	Includes legal formalities.
2	Not controlled by legislation.	Controlled by legislation (partnership Act, 1932).
3	One-man business.	More than one person can be involved. It depends upon business type and can have up to 20 members.
4	No need for agreement.	Requires agreement/deed.
5	Maintains secrets.	Maintains secrets.
6	Limited supply of capital.	More supply of capital.
7	No delay in decision making.	Decision making takes a long time.
8	Risk borne by one person.	Risk is shared between partners.
9	Inefficient management due to various reasons.	Efficient management.
10	Sometimes	Renews agreement/deed.

	leads to business continuation.	

14. List out different kinds of Partners.

Ans) The following are the different kinds of partners:

1. Active Partner: Active partner takes active part in the affairs of the partnership. He is also called working partner.
2. Sleeping Partner: Sleeping partner contributes to capital but does not take part in the affairs of the partnership.
3. Nominal Partner: Nominal partner is partner just for namesake. He neither contributes to capital nor takes part in the affairs of business. Normally, the nominal partners are those who have good business connections, and are well places in the society.
4. Partner by Estoppels: Estoppels means behavior or conduct. Partner by estoppels gives an impression to outsiders that he is the partner in the firm. In fact be neither contributes to capital, nor takes any role in the affairs of the partnership.
5. Partner by holding out: If partners declare a particular person (having social status) as partner and this person does not contradict even after he comes to know such declaration, he is called a partner by holding out and he is liable for the claims of third parties. However, the third parties should prove they entered into contract with the firm in the belief that he is the partner of the firm. Such a person is called partner by holding out.
6. Minor Partner: Minor has a special status in the partnership. A minor can be admitted for the benefits of the firm. A minor is entitled to his share of profits of the firm. The liability of a minor partner is limited to the extent of his contribution of the capital of the firm.

15. Outline any three merits and demerits of Partnership.

Ans)Advantages of a partnership include that:

two heads (or more) are better than one

your business is easy to establish and start-up costs are low

more capital is available for the business you'll have greater borrowing capacity

high-calibre employees can be made partners

Disadvantages of a partnership include that:

the liability of the partners for the debts of the business is unlimited each partner is 'jointly and severally' liable for the partnership's debts; that is, each partner is liable for their share of the partnership debts as well as being liable for all the debts there is a risk of disagreements and friction among partners and management.

16. Write a short note on Partner by Estoppel.

Ans)A legal, binding partnership that may occur where previously, no formal partnership agreement was in place. A person who exhibits such conduct, or says words which represent, or allow him to be represented, as a partner in any firm becomes liable to any loans or credits that are obtained by the firm. It is also known as the presumption of partnership.

17. Summarize about the formation of Joint Stock Company.

Ans)Formation of Joint Stock companyThere are two stages in the formation of a joint stock company.

They are:

(a) To obtain Certificates of Incorporation

(b) To obtain certificate of commencement of Business

Certificate of Incorporation: The certificate of Incorporation is just like a 'date of birth' certificate. It certifies that a company with such and such a name is born on a particular day.

Certificate of commencement of Business: A private company need not obtain the certificate of commencement of business. It can start its commercial operations immediately after obtaining the certificate of Incorporation.The persons who conceive the idea of starting a company and who organize the necessary initial resources are called promoters. The vision of the promoters forms the backbone for the company in the future to reckon with.

18. Recall about unlimited Liability.

Ans)Unlimited liability refers to the full legal responsibility that business owners and partners assume for all business debts. This liability is not capped, and obligations can be paid through the seizure and sale of owners' personal assets, which is different than the popular limited liability business structure.

19. Define market? Write a few lines on Market Structure.

Ans)part c -1

20. What do you understand about Product differentiation?

Part c-2 click here