1. Compare monipoly, perfect & monopolistic
2. Features of oligopoly
3. Kinked demand curve
4. Pricing strategies
5. Non price competition
6. Circular flow of income
7. GNP, GDP, NNP
8. PROBLEMS
9. MEASURES TO CONTROL INFLATION
10. DIFFERENTIATE B/W MONEY MARKET & CAPITAL MARKET, BOND& SHARE, DEMAT& TRADING ACCOUNT

10:32

Comparing various market structures

Sl. No.	Reference	Perfect competition	Monopolistic competition	Monopoly
1.	Number of sellers and buyers	Large.	Large.	One seller, but large number of buyers.
2.	Product	Homogeneous.	Product differentiation	Homogeneous or differentiated.
3.	Price	Uniform.	Not uniform because of product differentiation	Not uniform because of price discrimination.
4.	Entry of firms	Free entry.	Not absolute freedom.	Not possible.
5.	Knowledge of market conditions	Perfect knowledge	Imperfect knowledge.	Imperfect knowledge.
6.	Firm's demand curve	Perfectly elastic.	Relatively more elastic.	Relatively less elastic.
7.	Slope of firm's demand curve	Horizontal straight line (AR = MR).	Slopes downward with high elasticity (AR > MR).	Slopes downward with low elasticity (AR > MR).
8.	Degree of price control	No control over price.	Partial control over price.	Full control over price.

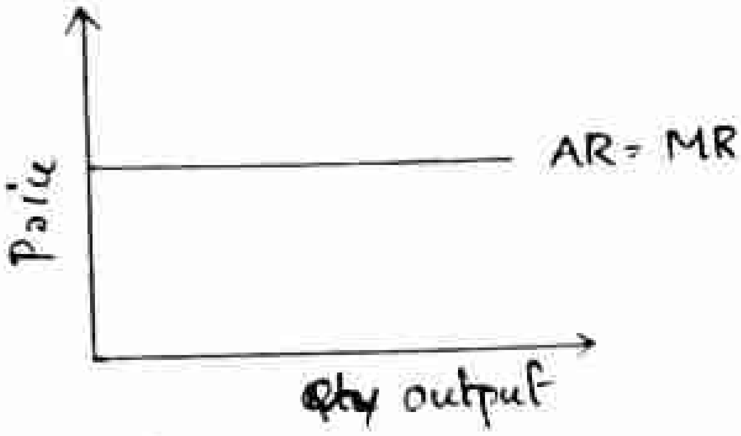
Module III

Market Structure

Shape of revenue curve ~~Demand curve~~ in market structure (Demand curve)

(AR = Demand curve
Equillibrium
AR = MR}

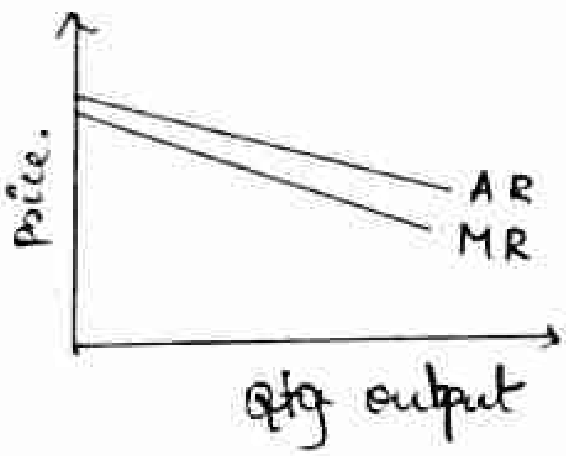
perfect competition



Monopoly

MC = MR

Monopolistic



MC = MR

OLIGOPOLY

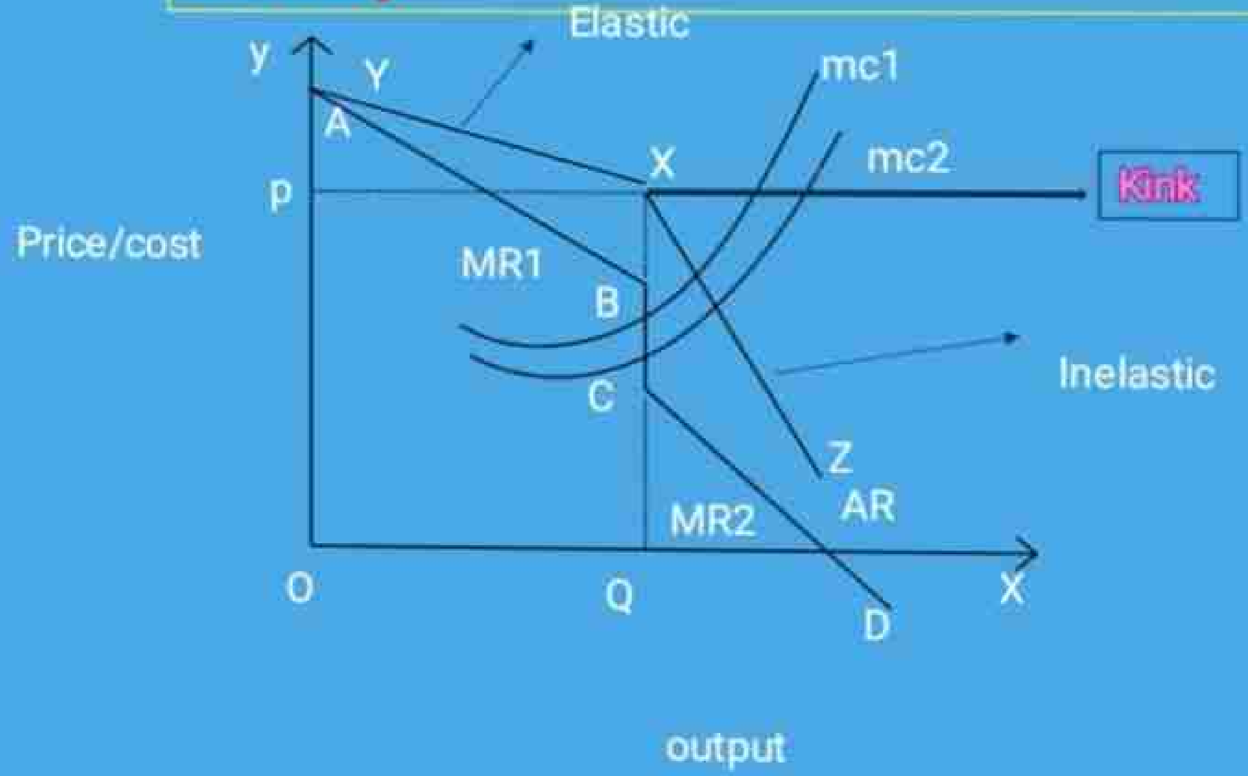
Oligopoly market structure is characterized by a few sellers

OLIGOPOLY

- In oligopoly competition few sellers produce differentiated products which serve same purpose.
- Differentiation occurs in so many products like refrigerators, AC, shirts, medicines etc.
- Let us assume A and B are oligopolists If A reduces his price, then consumers of B will rush towards to A.

1. There are a large number of buyers.
2. There are only a few sellers.
3. There are entry and exit barriers.
4. The product may be homogeneous or heterogeneous, i.e., similar or differentiated.
5. The price-output decisions of one firm are highly dependent on those of others.

KINKED DEMAD CURVE – Paul M Sweezy



IMPORTANT PRICING STRATEGIES

- COST PLUS / MARKUP PRICING
- TARGET RETURN PRICING
- PENETRATION PRICING
- PREDATORY PRICING
- GOING RATE PRICING
- PRICE SKIMMING
- ADMINISTERED PRICING

COST PLUS

- Under ths strategy price is the sum of cost and profit margin.
- Usually average price is used therefore it is also known as average cost pricing
- Price = ac + m
- M is the % of markup usually 10%
- It varies from industry to industry depending o the substitutes and degree of competition
- Simple & convenient

TARGET RETURN

- Similar to cost plus pricing
- Differnce is price is not fixed arbitrarily but producer rationally the minimum rate of return
- Target return pricing is the pricing policy where the firm determines the price that yields its target rate of return on investment.
- **Target return price = unit cost + (desired return * invested capital) / unit sales**
- Desired return is the desired return on investment, also known as ROI.

PENETRATION PRICING

- When a firm wants to enter into a market which is already dominated by the existing firm . His only option is charging a less price than the existing price this price is called penetration price .
- This generally happens in market structures where the product differentiation is low and price elasticity of demand is high .

PREDATORY PRICING

- Under this type of pricing the predator , already dominant firm, sets its prices too low for a sufficient period of time so that its competitors lleave the market and others are deterred from entering. The firm might raise the price later on to cover up the losses incurred initially .
- This kind of predation is done on the expectation that these present loses will be compensated by the future gains .
- Predatory ricing usually cause harm to the consumers and is considered as Anti-competitive ,s it violates competition laws ,as it makes market more vulnerable to monopoly

GOING RATE PRICING

- Going- rate pricing is a method adopted by the firm wherein the product is priced as per the prevailing rate in the market . The company sets a price of its products in line with the competitors prices and may charge more or less depending on the value product offers . This type of pricing is followed in oligopolistic industries . By adopting this kind of strategy firms can avoid a price war like situation.

Eg mineral water , fertilizer , paper steel etc

PRICE SKIMMING

- Price skimming is a strategy in which high price is charged at the time of introduction of a product and a lower price during maturity. Producers know that a segment of high income consumers wishes to become the first among those who posses the product.(status symbol). Once the product is established producers will reduce the profit margin and charge a lower price to attract lower income group.
- Charging the highest initial price during the launch of a product can help to increase the return on investment.
- Price skimming can also create the perception that a product is of higher quality

NON PRICE COMPETITION

- Non- price competition is a marketing strategy that typically includes promotional expendetures such as sales staff,sales promotion special orders ,free gifts,coupons& advertising .
- It is marketing a firm's brand & quality of products rather than lowering prices

EXAMPLES OF NON-PRICE COMPETITION

- Loyalty card- Give rewards or money back who build up points. eg supermarkets
- Subsidised delivery - Big firms has been successful in offering free delivery for their customers .this would give customers an incentive to purchase .
- Coupons& free gifts – sellers provide coupons & free gifts along with the product. This encourages customers to buy from that seller.
- Advertising /brand loyalty- Firms spend crores on advertising because repeated exposure to brands can make consumers more likely to buy such brands .
- After sales service - It is crucial for the reputation and brand loyalty

Circular flow of income in a two sector economy

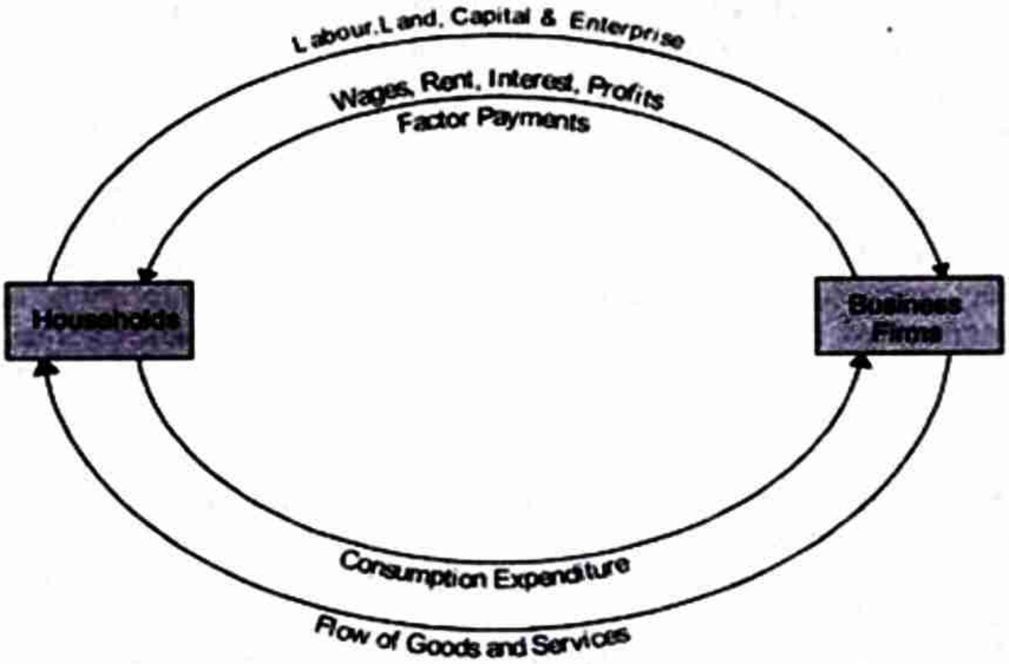


Fig. 6.1. *Circular Flow of Income in a Simple Two Sector Economy*

- In a two sector economy, only two sectors are considered that is Households and firms.
- There is no government sector and no foreign sector.
- There exists a f bw of service from the households to the f irms and a corresponding of factor incomes from the firms to the households.
- Firm produces goods and services with the help of factor services from households and pay rewards to households sectors for their factor services in the form of rent, wage, interest etc.
- After this f irst round f irms have goods and services and households sectors have income which they want to spend for satisfying their wants.
- Household sector spends its earned money to buy goods and services from f irm and thus f irm in return gets money in this exchange. This two way circulation (one clock wise and the other anti-clock wise) goes on moving and recycling of economic activities in both the sectors takes place.

Circular flow of income in a multi sector economy

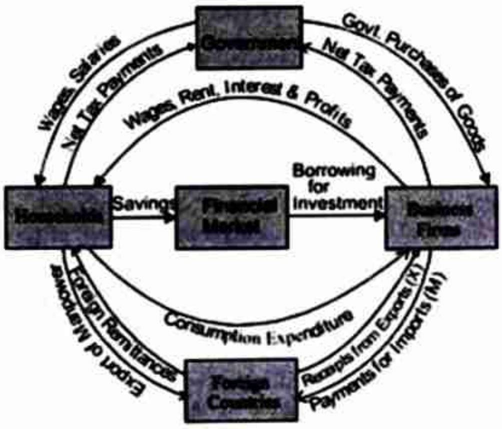
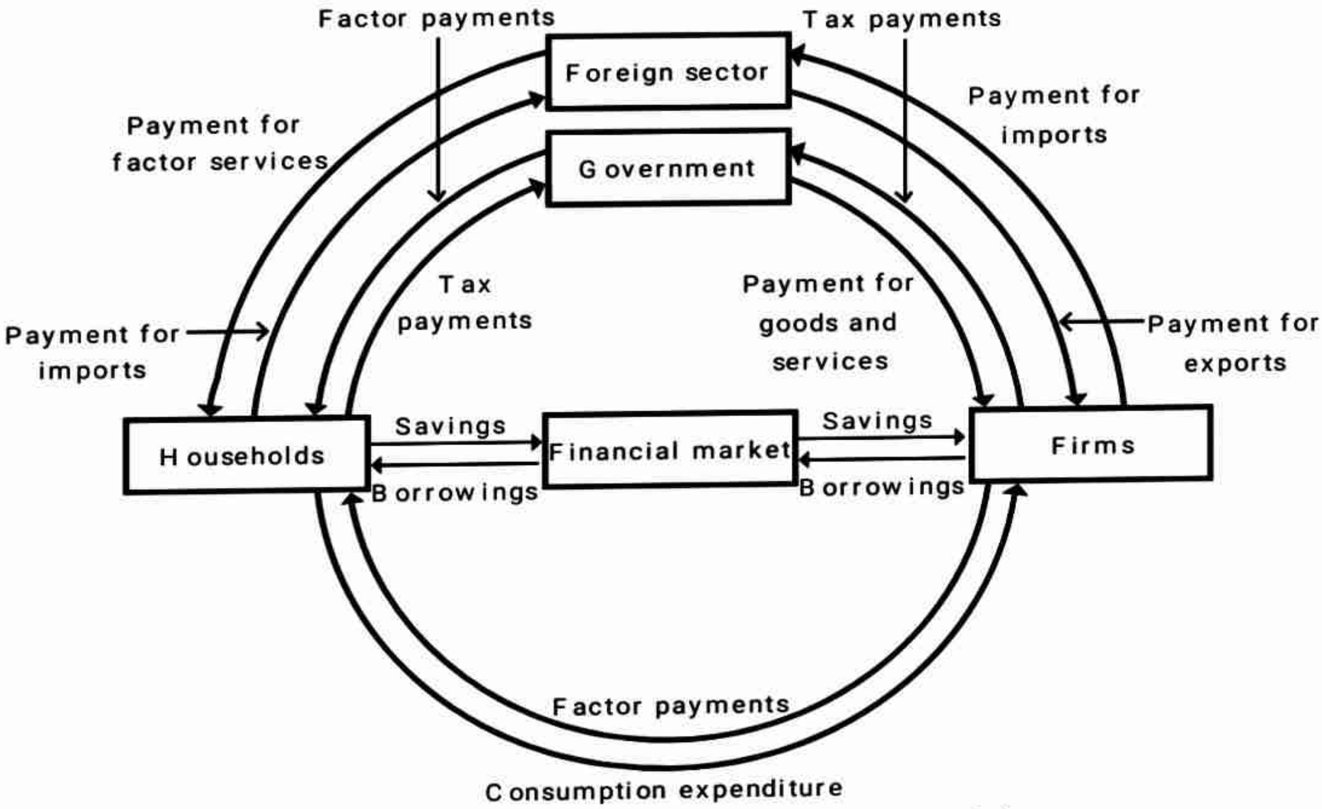


Fig. 6.4. *Circular Flow of Income in an Open Economy with Government and Foreign Sector*



Circular flow of income for four sector model

- The circular flow of income in a four sector economy is shown above. It consists of households, firms, government and Foreign countries.
- Circular flow of income, each sector plays a dual role, it receives certain payments from other sectors as well as makes certain payments to other sectors of the economy.

Circular flow of income in different sectors

- Household sector:

Households provide factor services to firms, government and foreign sector. In return it receives factor payments. Households also receive transfer payments from the government and the foreign sector, households spend their income on payment for goods and services purchased from firms, tax payments to government and payments for imports.

- Firms:

Firms receive revenue from households, government and the foreign sector for sale of their goods and services. Firms also receive subsidies from the government. Firm makes payments for factor services to households, taxes to the government and imports to the foreign sector.

- Government:

Government receives revenues from firms, households and the foreign countries for sale of goods and services, taxes, etc. Government makes factor payments to households and also spends money on transfer payments and subsidies.

- Foreign sector:

Foreign sector receives revenue from firms, households and government for export of goods and services. It makes payments for import of goods and services from firms and the government. It also makes payment for the factor services to the households.

Circular flow of Income

- Macroeconomics focuses on understanding the overall performance of an economy.
- Production, consumption and investment are the basic parameters that indicate the level of economic activity in an economy.
- Behavior of these parameters are analyzed through circular f bw of money across the various sectors of an economy.
- Studying interdependence among these sectors, we came to know what is the level of these macro variables indicates the overall level of economic activity in the economy.

GDP

- Gross Domestic product is the total market value of all final goods and services currently produced with in the domestic territory of a country in a year.

- **GDP= C+I+G+(X-M)**

  Consumption (c)
  Investment (I)
  Government Expenditure (G)
  Exporting (X)
  Importing (M)

4 things must be noted regarding this definition.

- It measures the market value of annual output of goods and services currently produced. This implies that GDP is a monitory measure.

- For calculating GDP accurately ,all goods and services produced in any given year must be counted only once so as to avoid double counting. So GDP should include the value of only final goods and services and ignores the transaction involving intermediate goods.

To avoid double counting the national income accounts only the record value of the final stage which in this case is the selling price of Rs 25,000/-

- GDP includes only currently produced goods and service produced in a year.

- GDP refers to the value of goods and services produced within the domestic territory of a country by nationals or non nationals.

GNP

- Gross national Product is the total market value of all final goods and service produced in a year plus net factor income from abroad where as GDP does not.

- **GNP=GDP+ NFIA**

- NFIA= Net factor income from abroad

A factor income received by Indian national from abroad – Factor income paid to foreign national working in India.

NNP at Market Price

- NNP is the market value of all final goods & services after providing for depreciation i.e when charges for depreciation are deducted form GNP, we get NNP at market price.

- **NNP at market price = GNP – Depreciation**

- Depreciation is the consumption of fixed asset or decrease or fall in the value of fixed assets due to wear & tear.
- Market price is the price paid by the buyer of a commodity in the market.

NNP at factor Cost

- NNP at factor cost or National income is the sum of wages , rent, interest and profit paid to factor for their contribution to the production of goods and services in a year.

- **NNP at factor cost = NNP at market price – indirect taxes + subsidies.**

- Factor cost is the cost paid by the producer to the factors of production for their contribution in the production of the commodity.

Control of inflation

- Monetary measures
- Fiscal measures (Government Revenue and expenditure)
- Direct or non monetary measures.

Monetary measures

- Control on Bank Credit
- Control on printing of currency notes
- Abolish the currency with higher denominations
- Blocking of liquid assets.

Fiscal measures

- Reduction of rate of interest for government securities.
- Do not levy excessive tax
- Increase excise duty
- Forcing people to save

Direct or non monetary measures

- By increasing production in industries
- By controlling wages and salaries
- By controlling the prices of commodities
- By opening more ration shops
- By controlling the black money.

BONDS & SHARES
A COMPARISON

BONDS

- THE INVESTOR LENDS MONEY TO THE COMPANY
- THE ISSUERS OF BOND ARE GOVT INSTITUTIONS ,FINANCIAL INSTITUTIONS, COMPANIES
- RISK IS VERY LOW
- BOND HOLDERS GET INTEREST, AS A FXED PAYMENT
- RETURN IS CERTAIN
- A BOND HOLDER AS A CLAIM ON ASSETS
- TE CAPITAL IS PAID BACK IN FULL TO THE INVESTOR
- MATURITY PERIOD IS FIXED

SHARES

- THE INVESTOR OWNS A PART OF THE COMPANY
- SHARES ARE ISSUED BY CORPORATE ENTERPRISES
- RISK IS VERY HIGH
- SHARE HOLDERS GET DIVIDEND , WHICH IS NOT GUARANTEED
- RETURN IS UNCERTAIN
- WHEN COMPANY IS DECLARED BANKRUPT STOCKS WILL BECOME WORTHLESS AND INVESTORS MAY LOSE 100% OF THEIR CAPITAL
- THE AMOUNT OF CAPITAL THE INVESTOR GETS BACK DEPPENDS ON THE SHARE PRICE WHEN THE STOCKS ARE SOLD
- NO MATURITY PERIOD FOR SHARES

COMPARISON

Criteria	Money market	Capital market
Meaning	A segment of the financial market where lending and borrowing of short term securities are done.	A section of financial market where long term securities are issued and traded.
Risk factor	Low.	Comparatively high.
Time horizon	Within a year.	More than a year.
Merit	Increases liquidity of funds in the economy.	Mobilization of savings in the economy.

DEMAT ACCOUNT AND TRADING ACCOUNT

Demat account

- A demat account is used to hold shares in the electronic format that the investor buys from share market
- Demat account will have a unique demat number, which will be used to uniquely identify the investors account.
- Demat account can hold financial instruments like equity shares, mutual funds, etc.
- The key role of a demat account is to ensure the safety of investor's shares.

Trading account

- The trading account works as a link between the investors bank account and demat account.
- Trading account will have a unique trading number, which can be used to trade in the share market
- Trading account only helps in the act of buying and selling the securities, not used to hold any financial securities
- The key role of trading account is to allows to carry out trading transactions in the stock market