UNIT 2

MICROECONOMICS

Chapter: 1 Market and Revenue Curve

Concept of Market:

In traditional sense, Market is a place where goods and services are sold and brought by the sellers and consumer respectively.

In modern sense, market is a place as well as mechanism through which goods and services are transacted between two or more parties. Suppliers and demanders are the major driving forces in a market.

Components of market:

a. Commodity
b. buyers and sellers
c. place and communication

Classification of Market:

1. **Perfect competition market :**
2. **Imperfect competition market:**
   a. **Monopoly**
   b. **Monopolistic**
   c. **Oligopoly.**
      i. **Collusive Oligopoly.**
      ii. **Non-collusive Oligopoly.**

Meaning of Perfect Competition Market:

Perfect competition is defined as the market structure with large number of buyers and sellers and free entry and exit of firms. It is the form of market in which large number of firm produce and sells homogeneous products to the large number of buyers at fixed price determined by the market. The firms are known to be price taker.

The price of the product is determined by the industry and all firms under the industry have to accept the price determined by the industry. Therefore, the industry is called price maker and firm as price taker.

It is to be noted that in practical life, Perfect competition market is not found. It is an ideal situation. Therefore, it is a hypothetical situation. But some markets such as markets of food grains are very near to this market.

For example: Mobile company, noodles company.

Features of Perfect Competition Market:

1. **There are large numbers of buyers and large number of sellers**
2. **Selling Homogeneous product**
3. **Free entry and exit of firms**
4. **Profit maximization goal**
5. **Perfect knowledge of market**
6. **No government regulation**
7. **Free mobility of factors of production.**

Imperfect Competition Market:

The market structure between perfect competition and monopoly which consists of, at least, two sellers and the sellers have control over the price of their product.

1. **Monopoly:**

   It is the market structure where only one seller or producer is selling his product in the market to the large number of buyers. In this market there is no close substitute of the commodity that the seller sells. A monopolist has full control over the supply of commodity and setting price as per his wish thus he is called price maker.

   In the context of Nepal: Nepal Oil Corporation (NOC), Nepal Electricity Authority (NEA), Nepal Salt Trading Concern are the prime example of it.

   Features of Monopoly:

   1. **Single seller and large number of buyers**
   2. **No close substitute**
   3. **No entry of new firms**
   4. **Firms are price maker**
   5. **Possibility of price discrimination**

2. **Monopolistic Competition:**

   The market structure where there are many firms selling a slightly differentiated products. In this market, firm sells heterogeneous or differentiated products (products that are similar but not identical). It is blend of competition and monopoly market structures.

   For examples: Barber shop, mobile phones, Restaurants.

Features of Monopolistic market:

1. **Product differentiation.**
2. **Market power**
3. **Importance of advertisement and other selling cost**
4. **Independent decision making.**

3. **Oligopoly:**

Oligopoly is the market structure in which there are a few seller selling homogeneous or differentiated products to few numbers of buyers. It is also known as competition among the few.
For examples: Boing plane or Air Bus, Sports car etc.

Concept of Total Revenue, Average Revenue and Marginal Revenue:

Revenue: Money receipt of a firm form the sale of a product is called revenue or income received by a firm by selling its goods and services.

Types or Forms of Revenue:

1. ***Total Revenue:*** **Total revenue is the sum of all marginal revenue. It is the total receipt of a firm from the sale of its product. It is also defined as the product of price and quantity sold.**
   $TR = P*Q$ or $TR = MR_{1} + MR_{2} + \dots + MR_{n}$.
2. **Average Revenue: The AR is defined as the income of per unit sold or it is obtained by dividing total revenue by total output sold.**
   $AR = TR \div Q$
3. **Marginal Revenue: It is the change in TR due to change in quantity sold by one unit or MR is the addition made to the TR from the sale of an additional unit of commodity.**
   $MR = \Delta TR \div \Delta Q$ where, Δ means delta i.e. change.
   Or, $MR = TR_{n} - TR_{n-1}$.

Derivation of TR, AR and MR Curves under Perfect Competition Markets.

In the PCM, the firm is only price taker. The firm can sell whatever output is produces at the given price. The price is determined by the intersection of market demand and market supply curve. From price and quantity values TR, AR and MR values can be obtained which is given below:

Number of units sold (Q)	Price (Rs)	TR (P*Q)	AR (TR÷Q)	MR ΔTR÷ΔQ
0	10	0	0	0
1	10			
2	10			
3	10			
4	10			
5	10			

In the given table, TR is increasing at a constant rate due to the constant price (RS 10) of the product. Due to the same reason AR remains constant (Rs) as additional units of output are sold. AR equals to Price (AR=P). The AR curve gives the demand curve for a firm. MR also remains constant at all levels of output sold, since TR increases at a constant rate. Since price is constant AR= MR. Therefore, the value of MR and AR coincides. So, P=D=AR=MR.

Diagram:

Derivation of TR, AR and MR curves under Monopoly Market:

In Monopoly, the firm is price maker as it sets price of its product. Both AR and MR curves are downward sloping but AR>MR. The downward sloping curve implies that the monopolist sells more units of output by lowering the price of product and vive-versa.

The relationship between TR AR and MR can be illustrated below:

Numbers of units sold	Price	TR	AR	MR
1	8			
2	7			
3	6			
4	5			
5	4			
6	3			
7	2			

Diagram:

THE END.