MARKETS

Any platform that brings together buyers and sellers; be it a geographical place or a virtual place (internet); can be termed as market.

Features of Market

- Presence of ***buyers*** who are ready to buy goods and services
- Presence of ***sellers*** who are ready to produce and sell goods and services
- Existence of ***goods and services*** to be brought and sold
- A ***common platform/place*** for interaction of buyers and sellers.
- Existence of ***competition*** among buyers and sellers to buy and sell the goods and services

Must have features for any platform to be regarded as 'Market'

Forms of Market

Perfect Competition	Monopoly	Monopolistic Competition	Oligopoly
No. of buyers: **Large**	No. of buyers: **Large**	No. of buyers: **Large**	No. of buyers: **Large**
No. of sellers: **Large**	No. of sellers: **1**	No. of sellers: **Few**	No. of sellers: **A few**
Product: **Identical**	Product: **Identical**	Product: **Same yet different**	Product: **Identical**
Competition: **Perfect**	Competition: **No**	Competition: **Huge**	Competition: **Deadly &Cut-throat**
Example: **Agriculture**	Example: **Railways**	Example**: Cell phones**	Example: **Car market**

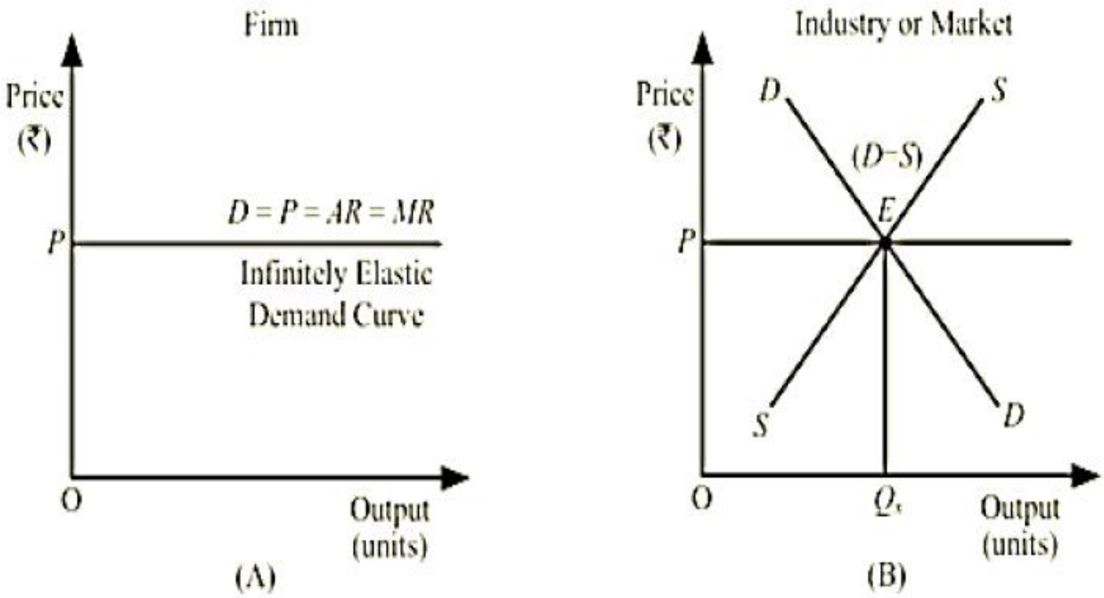
Imperfect Competition

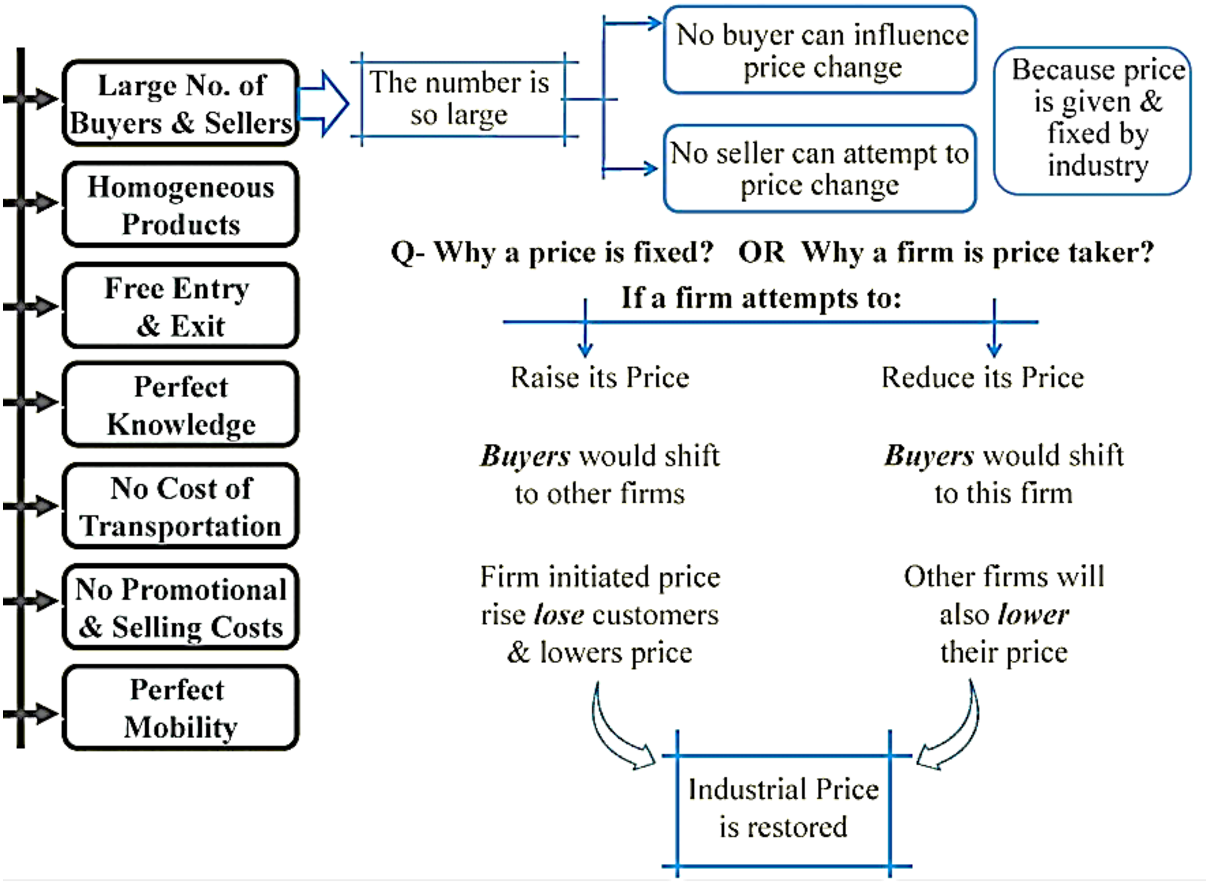
Perfect Competition

Features of Perfect Competition

Large No. of Buyers & Sellers	No individual firm can ***influence market price*** and there prevails uniform market price.
Homogeneous Products	The products of different firms are ***qualitatively and quantitatively homogenous***, hence are substitutes
Free Entry & Exit	All firms earn ***zero economic profit*** in the long run.
Perfect Knowledge	Buyers and sellers are aware of the market conditions; no seller can sell at a ***price higher or lower than*** market price.
No Cost of Transportation	No ***additional price*** can be charges as transportation cost; guaranteeing uniform price.
No Promotional & Selling Costs	No firm can ***influence buyers*** to purchase its products.
Perfect Mobility	Input price ***remains the same*** throughout the industry.

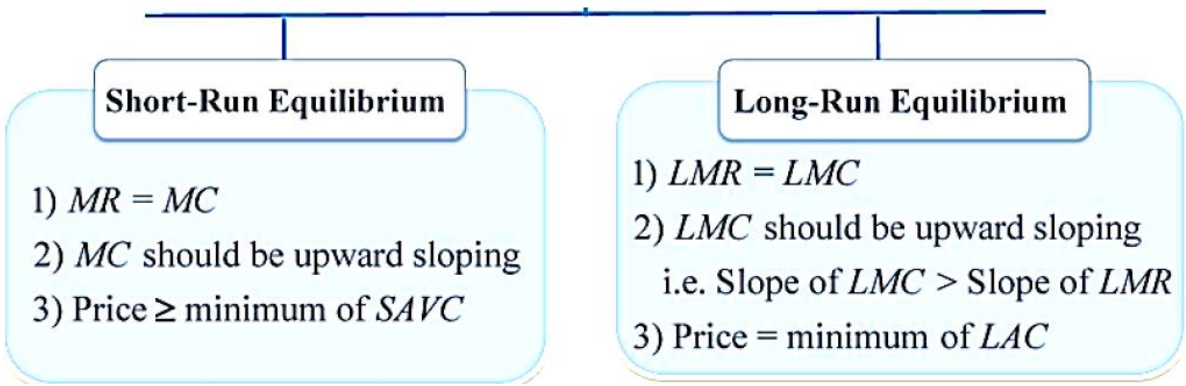
Q- Why a price is fixed? OR Why a firm is price taker?





Producer's Equilibrium MR-MC Approach

MR-MC Approach

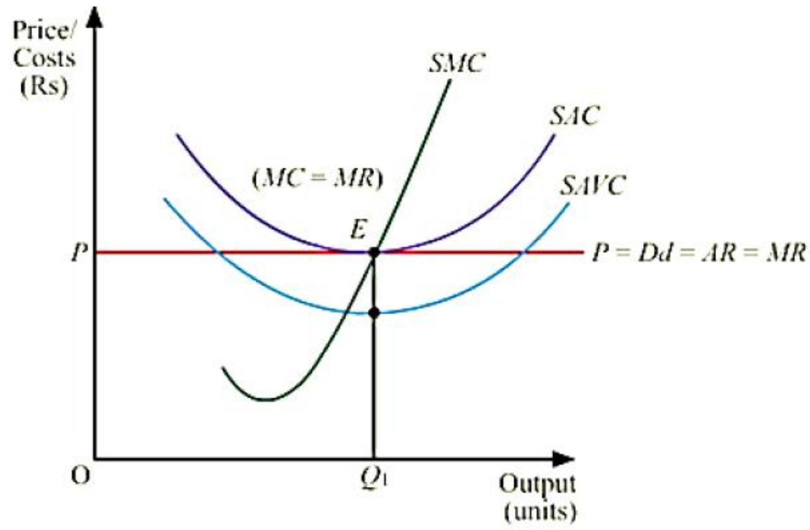


AR>AC (Super normal profit)

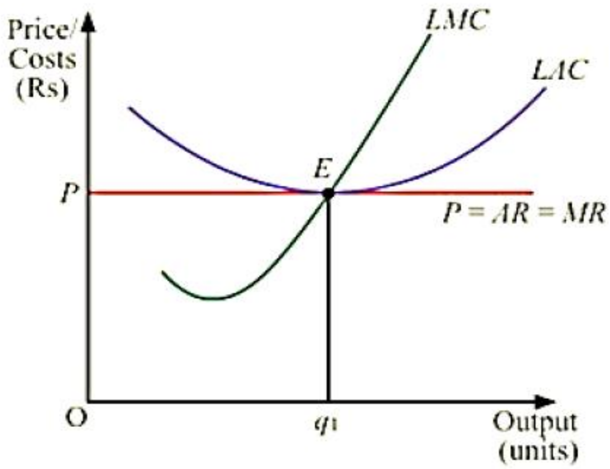
AR=AC (Normal Profit)

AR < AC (Loss)

Producer’s Equilibrium MR-MC Approach: Short Run



Producer’s Equilibrium MR-MC Approach: Long Run



In the long run, firms earn zero economic profit in the case of perfect competition.

Monopoly

Features

- Single Seller/ Firm/Industry
- No Close Substitutes
- Restricted Entry
- Price Maker
- Perfect Knowledge
- Price Discrimination

> **Let's Note**
>
> Demand Curve faced by the monopolist is also the ***price line***, i.e. the demand curve itself is the *AR* curve for the monopolist
>
> $\boxed{DD = AR = Price}$

Reasons for Emergence of Monopoly Power

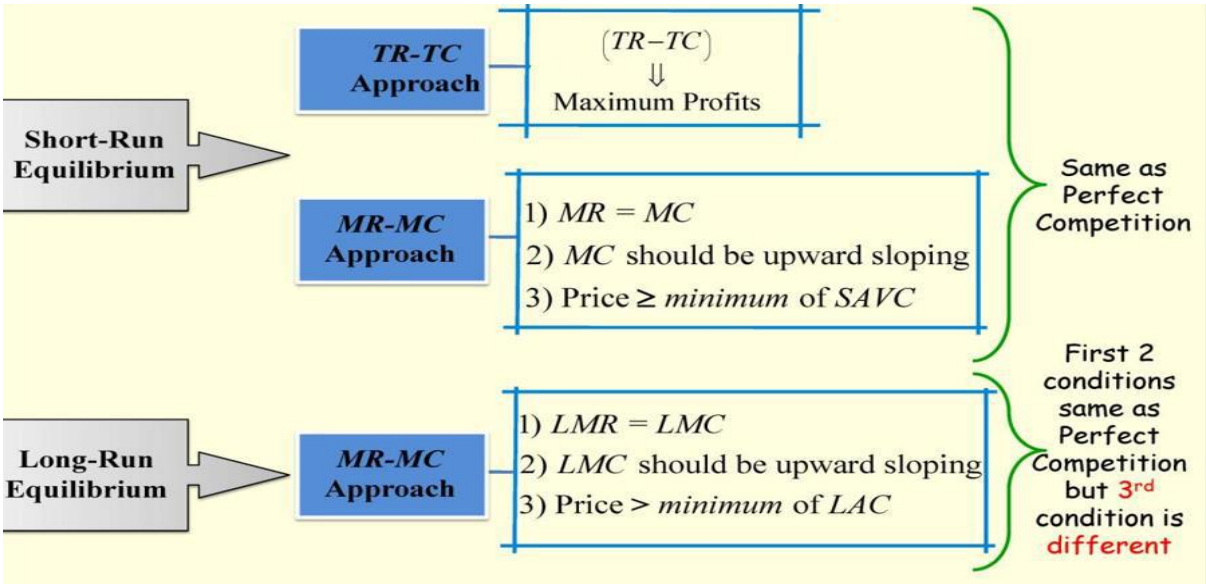
Patent Rights *means* ***Exclusive rights*** to innovators to ***use & sale*** their invention ⇒ ***Prohibit*** use of ***same production methods & techniques*** by other producers

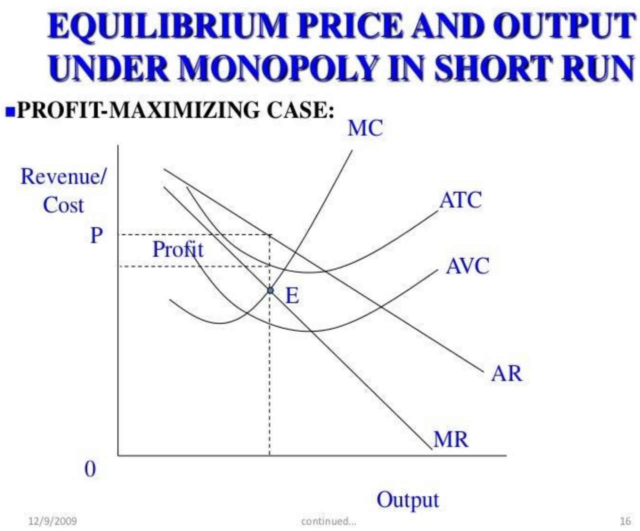
Cartels → ***Formal agreement*** between a group of firms *aims at*
- ***Avoiding competition*** amongst themselves
- ***Controlling*** major market share

Licensing → Government grants license to one of the producers for ***exclusive production*** of particular good

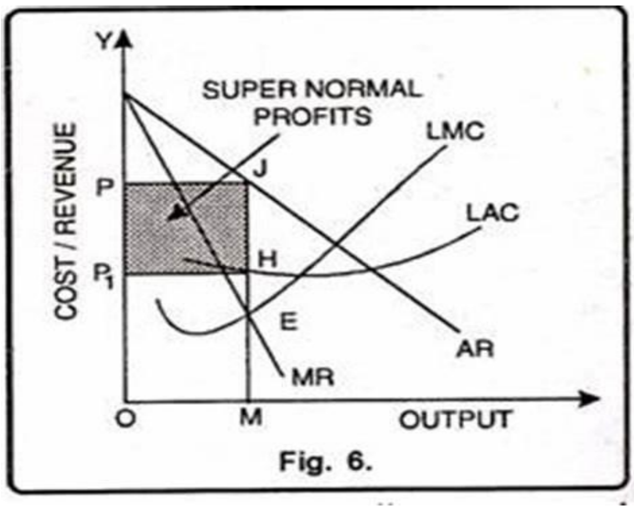
Endowment/ Owning Resources → Emerges out of ***natural phenomenon*** ⇒ Particular ***resource owned by particular person*** or group that enjoys full right over product

Equilibrium Monopoly: Short Run & Long Run



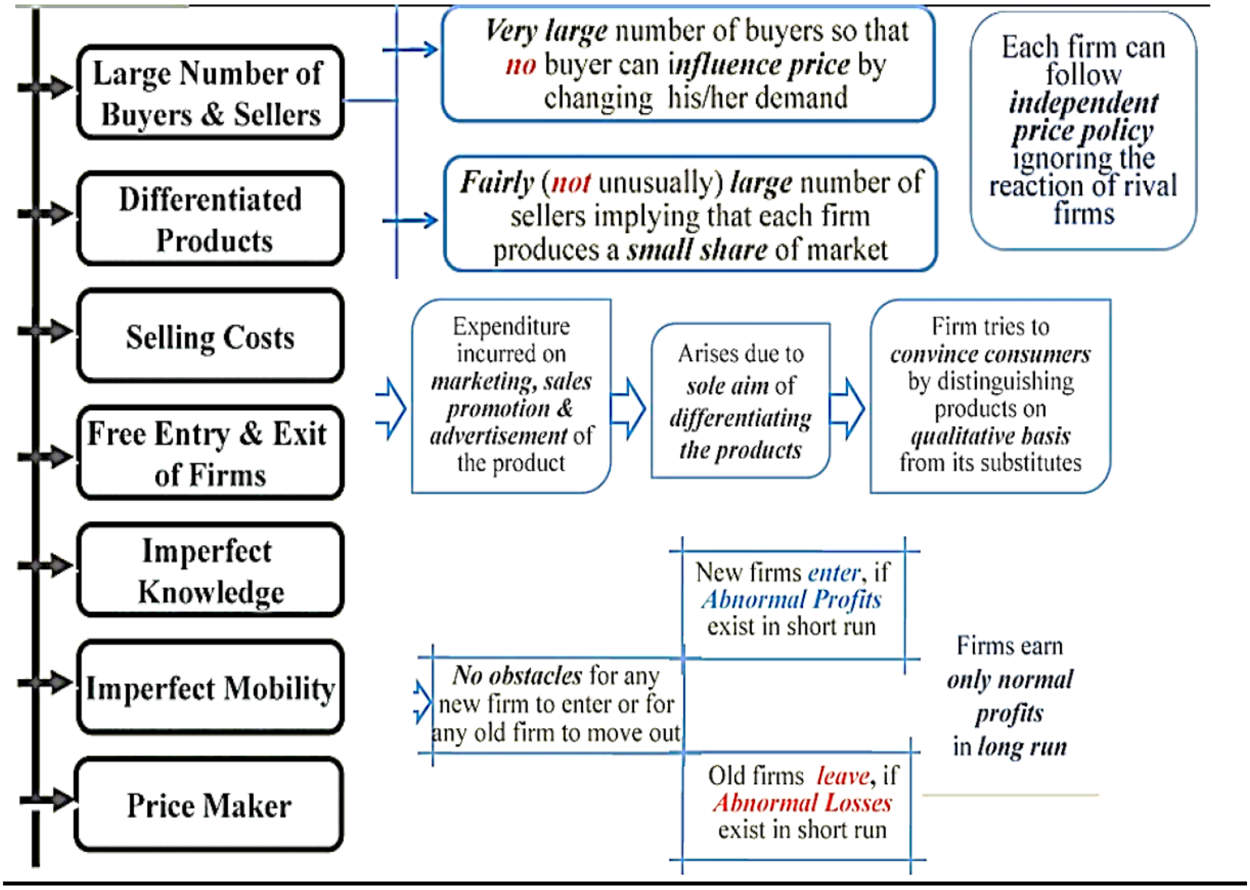


Long Run Equilibrium

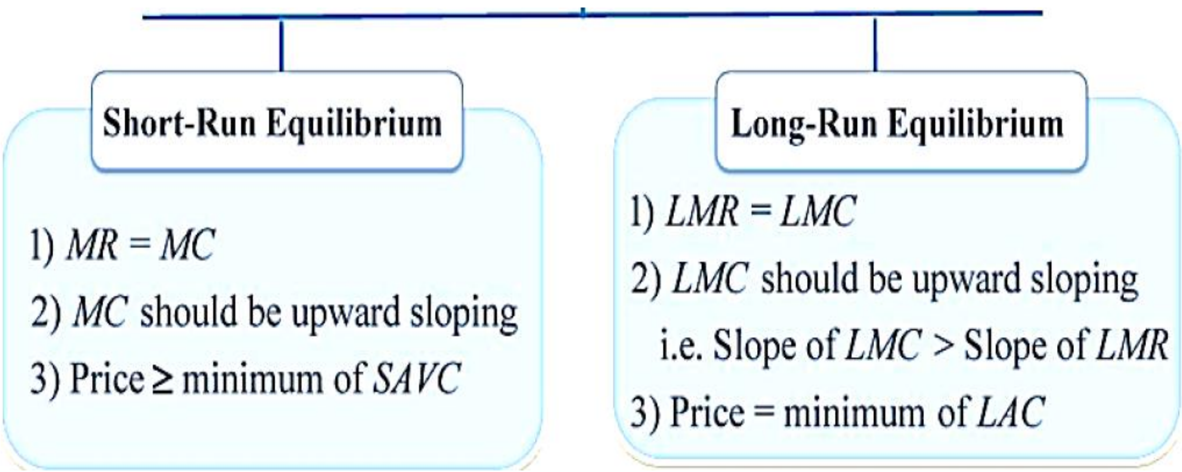


Monopoly earns super normal profit in long run.

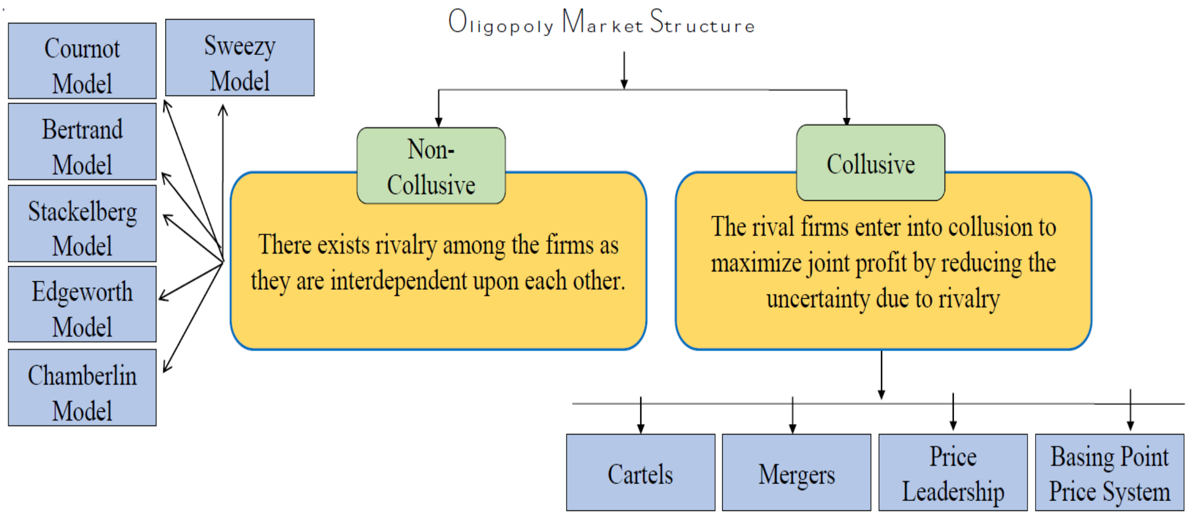
<u>Monopolistic</u>



Monopolistic Eqilibrium Conditions



Oligopoly



Cartel

A cartel is defined as a group of firms that gets together to make output and price decisions.

Oligopolistic firms join a cartel to increase their market power, and members work together to determine jointly the level of output that each member will produce and /or the price that each member will charge. By working together, the cartel members are able to behave like a monopolist.

Price war

If a producer decreases price which is reciprocated by others to attract

customer by decreasing their price further. In that way sometimes, they decrease the price which is even less than the average cost, and may sell at the price which only covers the average variable cost. They expect that their competitors will not be able to sustain themselves in the market at such a lower price and eventually will quit the market. The firm in question will be able to earn more or a larger market share in the long run. For example, the soft drink industry in India. Price wars can be prevented through strategic price management (with non-aggressive pricing), and through the understanding of the competition.

Price Leadership Oligopoly Market Structure

It is a coordinated behavior of oligopolists, where in one firm sets the price and the others follow it.

This enables them to avoid uncertainty about the rival's reactions and the follower still prefers to follow the leader even at the cost of a profit-maximizing position.

There can be explicit agreement or informal and unsaid trust. However, most often it remains informal, that is tacit collusion. And this is more popular than cartels, as in cartels, firms must adhere to the rules, but in the price leadership model, they have the freedom in selling activities.

In case of homogenous product & concentration of firms in one locality→ Identical prices

BUT

If products are differentiated, then prices will be different, but there will be similarities in their price change movements.