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Types of Business Organisations

make an effort to grow

any entity having some system

- Retail (sell in loose units, sales maximization)
- Mfg
- Service
- Govt
- NGO

→ 1st Mover advantage : jo pehle aayega market me, usey kuch some advantage

Forms of Ownership :

1. Private sector → govt represent the public
2. Public sector
3. Joint sector (public-private partnership)

* Public Ltd. Company : One which is listed in stocks market (not necessarily govt. company)

→ Partnership : upto 20

→ Joint Hindu : Head of family heads the business & passes to next gener"

→ Joint Stock : listed in stocks market

→ Co-operative : support each other

6-3-18

→ Non-profitable : whatever profit earned is plugged back into system

→ Business Organisations : profit isn't their goal but it is required for proper running

* Apart from NGO, all have diff. objectives where profit is embedded in their objective

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1. Sole Proprietorship

→ Business just started, at its initial stage

→ Members :- Only owner

Adv → Simple & easy to start & exit

→ Quick decision making

→ undivided profits

Disad → Unlimited liability :- Loss will be yours only. The liability to pay loss will fall on you only

→ Ltd. funds

→ uncertain life of business

2. Partnership

→ associated b/w 2 or more persons who have agreed to operate a business

→ Members : 2 – 20 : non-banking business

2 – 10 : business "

→ Ex : & Sons, & Brothers

→ Easy 'formation' ~

Disad → If business is loss, liability is on all members, irrespective of their contributions

→ distrust

Price waterhouse : later became corporation

↳ 'Audit ke liye famous hai'

3. Joint Hindu Family

→ Comprises of father, mother, sons, daughters, grandsons, granddaughters

→ Male dominates in this type of organisations

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4. Joint Stock Company / A company (Corporate)

→ Stock market me iske shares registered honge

↓

wealth is divided into small units, you send it to common people → interest free

→ ~~Max~~ members : 7 to ∞

→ why buy shares ?

- Company shares their profit in form of dividence
- Can sell shares when prices ↑

seller : kal price ↓ sakta h = bearish
buyer : ~~—~~ ↑ ~~—~~ : boolish
⇓
bear & bool

} transaction where both views meet

continious simultaneous ~~so~~ selling & buying take ~~pal~~ place.

→ Ownership & people managing company are different

↓ ↓

You, because you bought a share. CEO, jo company chalata h.

⇒ How much stake of ~~profit~~ company you have decides ~~when~~ whether you can influence the company's decisions.

Stake

Promoter Stake
jisne company banayi hai

Controlling Stake
while appointing Board of Members, you can affect decision making
→ ~~jo company chalata h~~ jisne shares khareede h.

→ Pvt. Ltd. : do have shares but can be held by only members of company. (Stock market me listed nhi hoga)
Members : 2-50

→ paid up capital : atleast 5 lac rupees they have to contribute who start company

in Pvt. ltd. : 1 lac.

→ Tata Capitals : non-banking
↓
jinka core kaam banking nhi h.

→ IPO : 1st listed as company in stock market

5. Co-operative society

Eg. Co-operative housing society, AMVL,

Co operative banks : ROI ↑ but fraud ↑
↓
not being registered under RBI scams very popular

6. Multinational Companies (MNC)

Visa > GDP of Zimbambwe

Slide 22 Retail, Petroleum, Auto motors

7. Non-Profit Organisations

Ex Wipro : running some project to ↑ literacy.

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Price Screening : Initially, when a product is launched, you charge high price for it. Later on, you ↓ price

Eg. When ~~It~~ iPhone comes, apple ↓ price of iPhone 6s
When movie releases on friday, its ticket price ↑ later on, ticket price ↓.

→ There are 14 countries that control the price of oil. Oil dominates the world.

Slide 24 Many are pharmaceutical. → newly arised / emerged
↓
sunrise sector (relatively new)

→ Sun Pharma Owner : very simple, commerce graduate, has old WagonR.

Govt. Institutions
(PSE, PSB, PSU)
↓
Public Sector Enterprises

→ Private companies don't work everywhere. Govt has to intervene there.
(Power)
→ Electricity exchange also occurs nowdays.
Power can't be stored. If in advance, you've contract, you can get power at assured price.

⇒ with a trader, I can have a contract at assured price

if price ↓ or ↑ ⇒ I give assured demand, you give assured supply at assured price

↓ suppliers no profit ↑ consumer no profit

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→ you realise the real price only after execution of contract.

→ This is known as derivative (वायदा Market)

① Departmental Undertaking :-

→ dept. is attached to ministery.

→ diff. setup, same work

② Public corporation :-

→ established under an Act (Statue), created by Parliament

Eg. RBI, Air India

③ Govt. Company / Public Ltd. company :-

→ 51% of paid up share capital is held by central govt. or by one or more state govt.

Eg. Maruti Suzuki (1st D-segment car), BHEL, SAIL, GAIL, etc.

Holding company — subsidiary company

Parent Company → Sister concern of that

Coca Cola → Coca Cola India

Indian Railways → Konkan Railways

④ Board Org^{n}s :-

→ carried on by a govt. nominated independent Boards.

→ mostly corrupted.

→ leads to scams

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Slide 32

(~~Their own investors~~ → Private Ltd)

① Corporation : Public Ltd.
sell stocks to other investors.
Not partnership (because stock nhi aata issue)

② Sole proprietorship

③ Partnership

④ "

Slide 34

① ✓ (Grocery store, not Mart)

② ✓

③ ✓

④ ✓

⑤ ✓

⑥ ✓

IV. Cost & Investment Analysis

→ CTC : Cost to Company
↓
You act as a factor of production

Profit = Revenue − Cost
⇓ ⇓
After sales recieved Before sales

↑ the difference × ↑ will be the profit

Loss ⟶ No ⟶ Profit

⇒ Loss ≡ Profit : Break even point

→ Investment Analysis : Understand present price value V/S future
What you could buy in ₹2000, you won't be able to buy it in future.

₹2000 of today = ₹2200 of future.

Aj ka future value ⇒ 2200 } → 10% discount
Future ka + nt value ⇒ 2000

* With time, value of money ↓
So, we discount ⇒ Rupee value is eroded by 10%.

→ Insurance Company : kaha kitna invest kare ki future me apna status of living maintain kar sake.

⇒ You can easily manage cost than Revenue
↓
iske liye market me jana padega jaha already bahut log baithe huye h.

Cost - Output Relationship

→ Factors affecting Cost

1. Size of plant :

↳ small kathi ⇒ छोटी logo के लिए ✓ : OK

↑ - - - : multiple effort

2. O/p level :

with given plant size, later on, cost will definitely ↑

(because certain things are unmanagable (after on)

3. Price of i/p : {factors of prod^n}

→ Most imp. factor : o/p

Types of Cost :

① Direct & Indirect

↓ ↓

I can trace it, easily identified — difficult to be traced

Eg. Man of Match — Eg. team me kisne zyaada kaam kiya

② Money & Real

↓

can be measured in terms of money

when you employ a labor, he has to go through some disutility, discomfort. If you can't compensate for it ⇒ Real Cost

Can't be measured in terms of money

Eg Soldiers at border, workers in chemical factories

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accountant cost

③ Explicit & Implicit

Explicit: hire kiya & pay kiya, can be stored in accounts

Implicit: Pharmacist hu, but m not getting salary, paying rent
⇓
If this wasn't case, all these values will be included ⇒ Implicit cost
↓
self possess, self supply

Problem: can't find exact salary, exact rent
↓
find most likely price

→ Revenue − ~~Prof~~ Cost (including Explicit & Implicit goods)

Slide 13. Implicit

④ Actual & Opportunity

Actual: Jiske bill exist karte h accounting cost

Opportunity: not actually incurred, but we're thinking about it. cost by choosing decision A & sacrificing decision B.

transfer earning : ~~Op~~
min^m price : ~~If cost~~

while leaving company, it may give you hype so that you don't ~~leave~~ transfer yourself : → Transfer earning.

2-03-18

⑤ Private & Social

Private: Managed by producer. The cost falls on them only
↓
has both explicit & implicit costs. It'll be producer's own responsibility to bear it.

Social: Costs which fall on society, borne by society (or other individuals)
May be profit / loss.
↓
social benefit → social cost
if " > " ⇒ It's good
if " < " ⇒ Bad problem

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→ getting vaccinated : also social cost.

→ Petrol filling : private cost but smoke produced : social cost

→ All entrepreneurs think about private cost only.
(business activities)

Slide 18 Private : expenses to run the plant

Social : poll^n cost

Slide 19 d) Social cost has no rel^n with salary.

Concept of Revenue :

Revenue : After sales receipt

- Total Revenue : $P \times Q_{ty}$ (all qty. sold)
- Avg. Revenue $= P$: $\frac{TR}{Q_{ty}} = P$
- Marginal Revenue : $MR = TR_n - TR_{n-1}$

Avg. Revenue Curve ⇔ Demand Curve

Cost - Output Relationship in Short Run & Long Run

Time

- Short Run
  - Fixed
  - Variable
- Long Run
  - Variable

Short Run can be classified on basis of :

1-) Total

2) Per Unit

1. Total

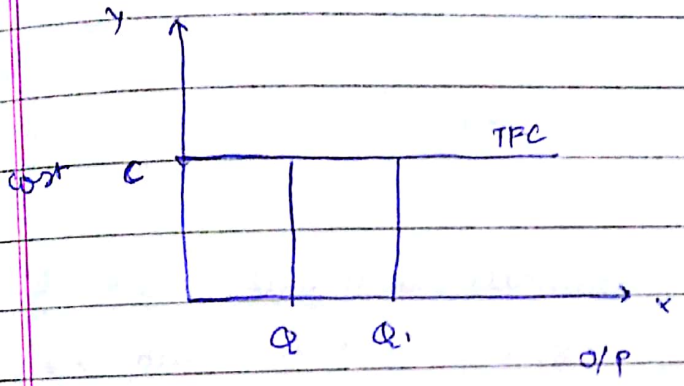
Total Fix Cost (TFC) + Total Variable Cost (TVC) = Total Cost

2. Per Unit (Avg.)

Avg. Fixed Cost TFC/Q | Avg. Variable cost TVC/Q | Avg total cost / Avg cost | Marginal Cost

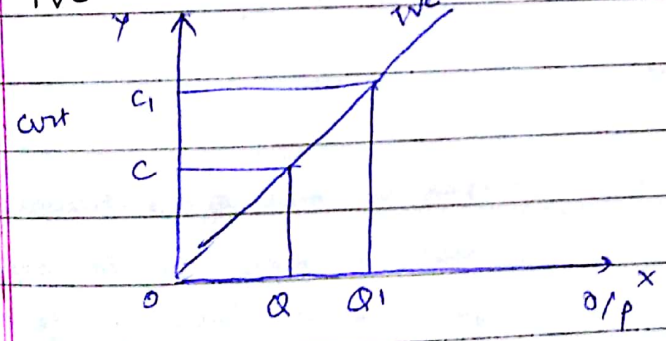
Total :

1. TFC : doesn't change with o/p

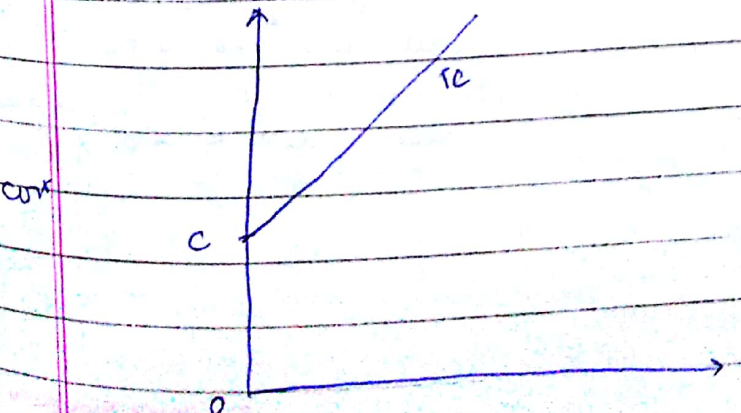


→ Land Rent pe le but use nhi ki ; 30 days baad wapis dena pdg.

2. TVC : changes with output may be curve also



3. TC = TFC + TVC certain point tak fixed, then varies → fix



DTH : @ subscribe channels later on : ↑ (if want more channel)

even if we don't watch. cost will be same

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Output ≡ Production

Producing more ⇒ Cost ↑

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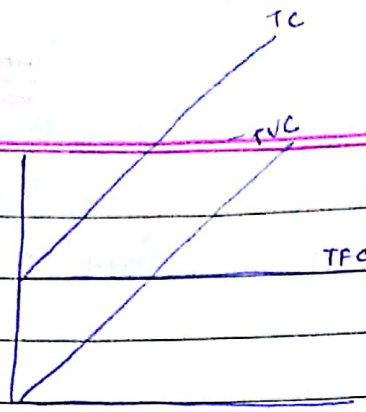
* considering only cost & output here



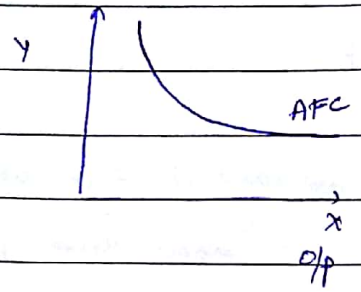
Per-Unit :

1. AFC = TFC/Q ← o/p

Beyond certain point, you can't decrease the ~~cost~~ fixed cost

↓

Property has been derived from TC.

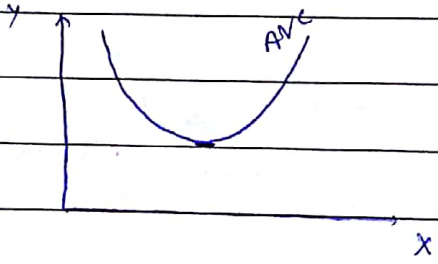


2. AVC = TVC/Q

Initially, it'll fall, reach min. point, later on, it'll rise with o/p

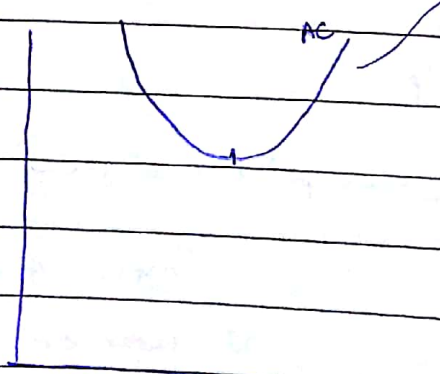
↓

more can be produced with rise in o/p



3. ~~AC~~ ATC = AVC + AFC

Fall in AFC is neutralised by rise in AVC. So, AC keeps on rising. (AVC is stronger in that portion)



why U shape

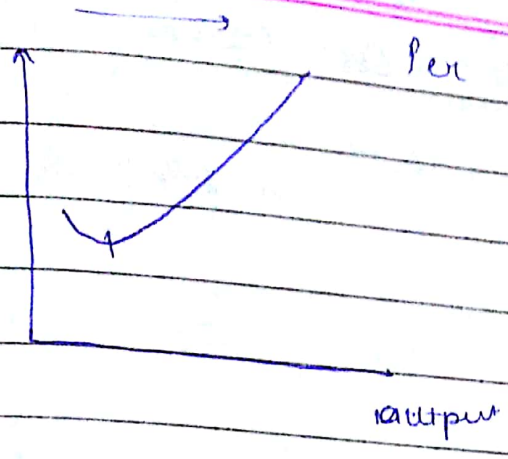
↓

fall : due to both

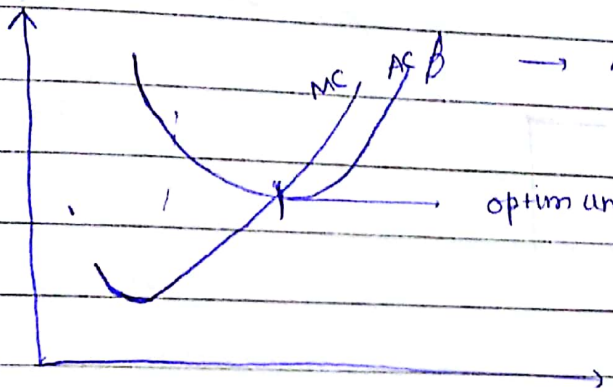
min : "

rise : due to AVC

4. MC



Relationship b/w AC and MC



1. If avg. cost falls ⇒ MC ↓ (but MC lies below AC)
2. AC = MC
3. If AC ↑, MC ↑ (Rise in MC > Rise in AC)

→ If AC = 0, MC is indeterminant.

* Cost can't be 0. There will always be some cost

Slide 32 : interrelation b/w short run : 1st show separately, than composite diag.

Slide 33 : 15% ↑ in all i/p. ⇒ 15% ↑ in o/p

avg. cost ⇒ remain const.

MC : won't be affected

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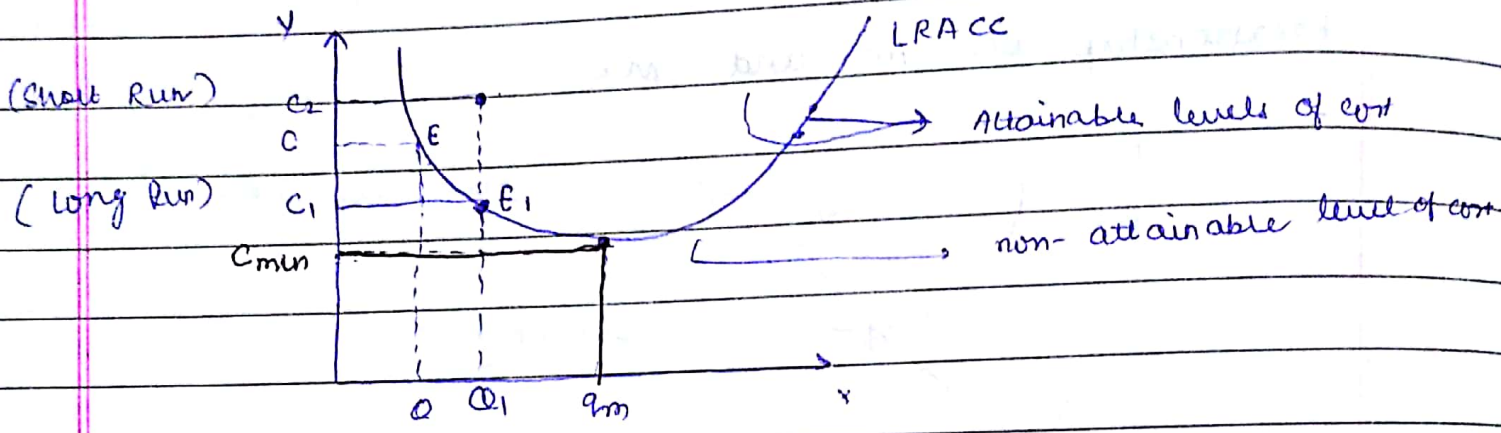
Long Run Cost Curve

Long Run Avg. CC

Long Run Marginal CC

→ short run v/s long run :



E : C & Q Ideal

later on, have to produce Q_1

Ideally, plant ready hona chahiye E_1 pe : long run cum

But plant ready nhi h → cost will be C_2 (instead of C_1)

With smaller plant, Q ↑ → cost will ↑

But in long run : can create a new larger plant so cost will be C_1.

→ For larger o/p → use larger plant

smaller " " smaller "

If take any other case : cost 'll ↑

→ Envelope Curve (comprises of diff. shortened cost curve)

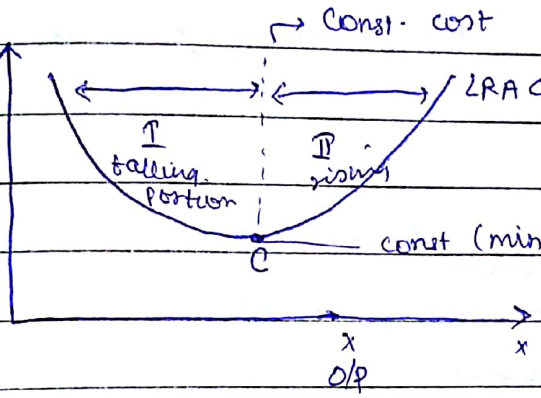
1) LRACC : 'U' shaped

⇓

LRTC (Long Run Total Cost)

@

↳ also called ~~soccer~~ saucer shaped curve

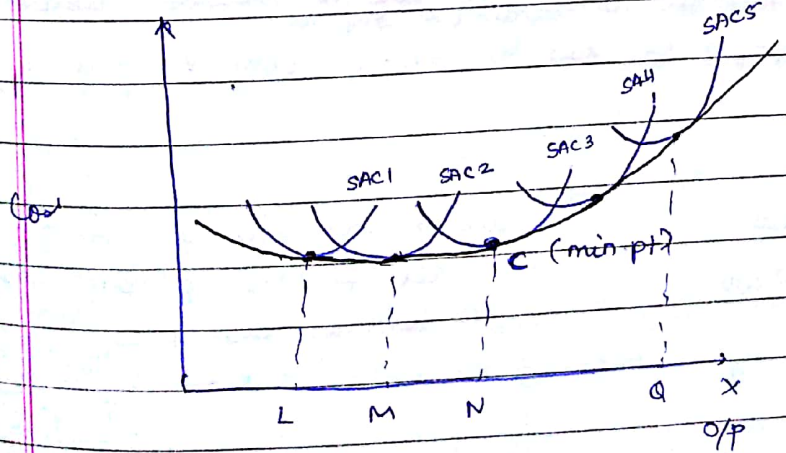


I : Any plant located in this region, in long run, O/p ↑ as cost ↓

↳ derived from economic of scale.

II : due to diseconomies of scale

How it should be actually drawn :



Join min. points of all to form LRACC

Every plan has its own SAC

→ Why U shaped :
due to economies / diseconomies of scale

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With SAC2, choose L ⇒ again cost 'll ↑

With SAC 1 (has capacity of 2 o/p), if I try to produce M o/p ⇒ cost will ↑

at N : SAC & LAACC both are min. ⇒ This is ideal position

→ SAC 5 : gives higher o/p but with higher cost

⇒ SAC 3 → C point

↳ Why people can't remain at C ?
(stick to)

1. P ↑ ⇒ add more margin
2. Some have perspective to create huge empire :→ Only rising portion (to get ↑ o/p)
   eventhough they're producing at ↑ cost.
3. Govt. ~~does~~ regulates : to restrict monopoly.
4. Some new arrival had come, etc.
5. Profit comes through Revenue.

Min cost is 1 thing & getting profit out of that is another thing.

Slide 51

Short Run : Atleast you should be able to recover variable cost so that you can sustain for long run

Long Run : should be able to recover both variable & fixed ".

→ Loss : ₹ 1000

fixed cost : ₹ 800

variable cost : ₹ 200

, Better to stop because you aren't even able to recover cost. Profit toh door ki baat h.

selling cost : Incl. of advertising cost

Cost and Investment Analysis

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→ New Tech. companies : Pharma Company, etc.

initially : R & D : High

↓

Product / service ↓

→ Marginal cost remains const.

Avg. " " " (TC : remains const.)

→ Graph start with constant. line

↳ These types of companies can reach success very soon.

Experience geometric growth/ instead of arithmetic growth/
profit profit

↳ They fade away also very fast.

↳ have to sustain adapt new tech.

Slide 7. Thoda sa ↓ kia cost ⇒ they'll reach success

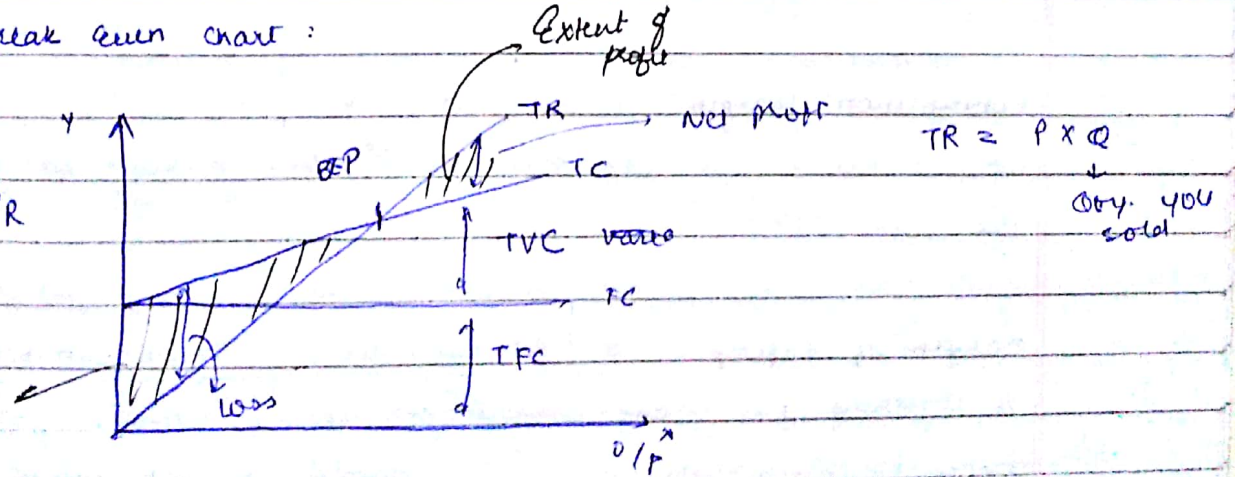
Thoda sa price ↓ ⇒ small se business even
skke h

big jump : due to geometric growth.

Break even analysis

Break even point - TR = TC (TFC + TVC) [Revenue = Cost]

→ Break even chart :



TR = P x Q

↓

Qty. you sold

→ Break even output = Fixed cost / Contrib^n per unit (whatever you've sold out of that find contrib.)

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→ Single brand FDs:
↓
Reebok, Adidas (Reebok ki shop me sirf Reebok ki chize hi milegi)

→ Actual profit starts only after recovering FC (much later)

Slide 12

FC = 40000
P = 10
VC = 4

P - VC ≡ Contribution per unit (regarding recovering your fixed cost)

Break even o/p = $\frac{40000}{10-4}$ = 6666 units

20/3/18

Pricing Strategies

→ Penetration pricing : Whichever have entered newly to market, to make more sales, they apply strategy 'high' vol & 'low' price.

→ Market Skimming : Only few sales will be able to push you to break even point

→ Elasticity : If more ⇒ incur more sales

Slide 14

TVC = 40000
TC = TVC + TFC = 50000
TR = 50000

Contribution Margin : ≡ TR - TVC

when I sell 1 unit, how much contb" it's making in recovering the cost (FC)

Margin of safety : = Actual sales - Break even point

If something goes wrong, even though sales go down, you'll remain at break even point! So, always business must produce more than break even output.

Capital Budgeting

→ Financial flow over long run

→ Investment : creation of new assets

1. Investment kyu karna h
2. Paisa kaha se aayega
3. Kis project me invest kare to get better return in shorter span of time.

There are 3 methods to choose this :

Determining the size of Capital :

① Open-ended approach : First setup a limit ka minimum can give good return. Then think ki paise kaha se aayenge (Risk)

② Fixed type of Budget : pehle paise ke baare me socha, phir proj. ke baare me. saare proj. execute nhi kr (Cautious)

③ Case by case : Yeh proj, iska paisa kaha se aayega. more subjective type

Small firm

(Extra Cautious)

Time Value of Money

With time, value of money depreciates. You've to discount it.

common denominator : interest rate / inflation rate (purchasing power)

22/3/18 → Non-Discounting Methods :

1. Payback method
2. Accounting Rate of Return

→ Discounting Methods :

1. Internal rate of Return
2. Net Result Value (Time value of Money)
3. BC ratio

→ Discounting : needed because money value don't remain same after years.

Present value = $\frac{FV_0}{(1+r)^n}$ (rate of discount) ← taken in conservative way

Slide 19 Result remains same in both cases.

→ Usually rate of discount & rate of inflation go closely hand by hand

For Personal lives : NPV & IRR

↓ financial evaluation to minimise uncertainity of future

→ For company : the rate at which it is borrowing ≃ r

Not eliminating uncertainity, just reducing it.

→ If you're setting up a business : have to discount it, recover

① Payback Period : what is invested & when'll you get it back?

Not applying Discounting, Otherwise, period ↑↑

After this time, profit will be gained

Slide23 → mutually exclusive : select the one which will recover payback fast

C_0 : Investment Cost

A → after 3 yrs B → after 4 yrs → (A)

② Accountic Rate of Return : kitna invest kiya, kitna recover kiya after paying taxes.

Discounting :

① NPV → same as time value of money

NPV > Cost (0) ⇒ Project accepted, Otherwise Projects rejected.

→ If money supply ↑ ⇒ Inflamation ↑ ⇒ value of money will come down more

Slide 33 : Cost of Capital : borrowing

* Demand Forcast Technique : find potential of a product (ask people, give free sample)

② Internal Rate of Return : won't fix arbitary discount rate. Try to find when will get it recovered. → NPV = 0

IRR > Opportunity ROI ⇒ Project accepted

③ BC Ratio : generally applicable for govt. services projects. (mainly for public)

↓ Economic evaluation

Govt. projects give you direct as well as indirect benefits (unknown)

Eg. Canal : Irrigation ↓ canal ki wajah se get in & get out kaam is not easy

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Restriction is possible in rivalry

React in -ve way
(Someone ↑ price → you also ↑ price)

Ratio > 1 ⇒ Project accepted

3/4/18

V. Market Structure

→ look where goods & services can be sold at.

→ can't be supplied ⇒ Market failure

→ Market : place where buyers & sellers come in contact of each other → competition occurs
(need not be physical communication)

Forms of Market :

① On basis of time : How supply change acc. to demand

Very short period : can't be available today (may get tmrw.)

② — — area : Retail : International

③ — — degree of comp^n : ↑ more seller ⇒ more comp^n (can be rivalry)

Imperfect : comb^n of both perfect & monopoly (decided by)
↳ no substitute

No. of buyers & seller	Nature of commodity	Freedom to enter & exit from the market
Microsoft : 1 seller, many buyer	selling ~~selling~~ same product → no comp^n	→ ~~More entry & more~~ comp^n
BCCI : 1 buyer, many sellers	different product (Kissan sauce, Maggi sauce) (homogenous / heterogenous product)	↳ Coal India : had monopoly in coal extraction. Now, pvt. companies are also allowed there. ↳ Delhi : many supply electricity.

→ Imperfection : either buyer or seller is not having complete info. as other. → info. can be controlled by any party
more imperfection

→ B/w 2 extreme : Monopolistic Competition (Both monopoly as well as comp^n)
Every seller tries to sell saying it is unique
Then only they can be monopoly. But
they have substitute (comp^n) Amul,

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→ Oligopoly : Rivalry (Price war goes on) → Telecom Companies
{ leader ↑ karega tabhi ↑ karenge)
↓
jiska share ↑↑ (Airtel)
↳ not all can survive in it.
is this market ~~cons~~ is in consolidation state : due to war, not many can be accomodated.

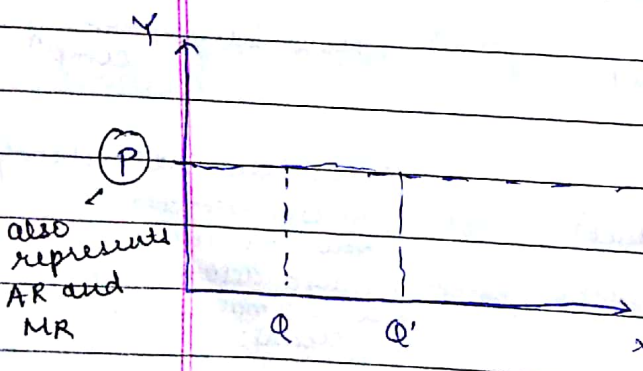
→ Duopoly : extreme case of Oligopoly ⇒ Only 2 firms
→ Monopoly : scale of investment ↑
Tap, Electricity : price ↓↓ Drug to save lives : Price ↑↑

Perfect Competition

↳ No one can influence prevailing price

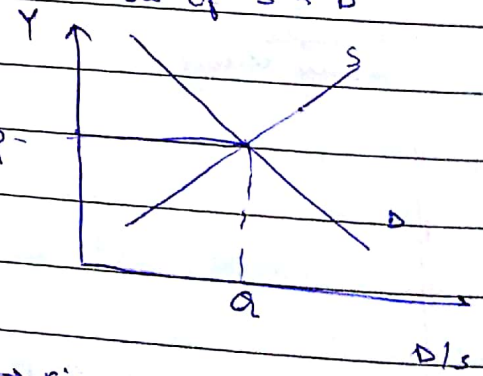
Firm
→ Independent unit

Pricetaker



(Price 'll be same) (can sell any amount)
If firm increases P ↑ : ~~too~~ customer will shift to next one.
(can't influence price)

Industry
→ Group of firms producing same kind of products
→ Fixed price of firms
↓
On basis of S & D



→ Firms together decide the price. NO one can charge below / above it : Price Maker

→ P = AR (Avg. Revenue) = MR
↓
(P × Q)/No. of Products → Q

→ In this market (Price is fixed ⇒ AR = MR = P)

eg:

P (fixed)	Q	TR	AR	MR
5	1	5	5	5
5	2	10	5	5
5	3	15	5	5
5	4	20	5	5
5	5	25	5	5

→ Why price is fixed ? : Industry has decided it
→ How industry can decide : Produces homogenous product.

↳ Seller can't charge ↑/↓ P & buyer can't ask for discount.
(because they buy only small amnt. of total prod^n)

Features :

Perfect Competition (not pure)

↳ Homogenous product (unless you perceive them to be different) } Pure Competⁿ
↳ Large no. of buyers & sellers
↳ Freedom of entry & exit of firm
↳ Perfect mobility so that P remains same everywhere.
(not perfectly mobile : can't shift land)
(send labor from low to high market but not so easy } It is assumed in this market
↳
↳ Perfect knowledge of market : both parties have equal info. without any cost (broker : info. cost) → because product is one & the same
(Market always work in imperfect fashion)
↳ Absence of transport cost : so that P ~ const. (Not Practical)
↳ Absence of govt. interference.

Teacher's Signature

→ Ex. of Closer to Perfect competition
↓
Stocks & shares
↓
Transport cost : very minimal

Scam hua ⇒ credibility down ho jati h.
Speculator → jaldi kharedte h, jaldi bechte h, bring more fluctuation to mkt
Investors → jaldi nhi bechte, don't bring " " to mkt

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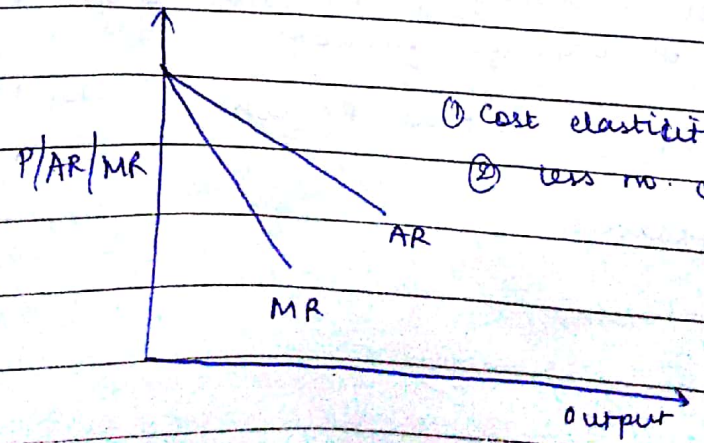
Monopoly : can't have pure / perfect monopoly in reality
Pure Monopoly : not having any substitute.
Railways : have limited monopoly.
↳ No close substitutions are available (Virtual Monopoly)

↳ TO remain monopolist : you'll try hard to remain single seller
→ In mobile : no substitute of android.
→ NO diff. b/w firm and industry ⇒ Firm is price maker.
↳ can ↑ price
↳ can ↓ supply
} → Underprod^n because they can still charge ↑ price as monopolist
→ Product sold : inelastic
→ Price discrimination can be practiced : From 2 diff. customers.
↳ I can take 2 diff. prices at 2 diff areas. (because geographically
↳ where demand is Inelastic ⇒ can charge ↓ price
elastic ⇒ can charge ↑ price
→ AR & MR



① Cost elasticity ↓
② less no. of substitutes ⇒ AR = P steeps more
(1)

Imperfect Competition :

1) Monopolistic competition : Brand is owned by specific firm ⇒ Monopoly (Patanjali Rice)
But substitutes also available → Basmati Rice, ...

* Monopolistic market & Monopolistic comp" market are diff
Restaurant : "Our own speciality" ⇒ Monopolistic Comp"
→ CBSE : Virtual Monopoly

Features :

↳ Heterogenous products / Product differentiation :
↳ Colour / Claim / Brand Ambassador, etc
↳ After sales & service

→ No price comp" here : only differ" on facilities product provides

↳ Free entry / exit : because investment is not too large.

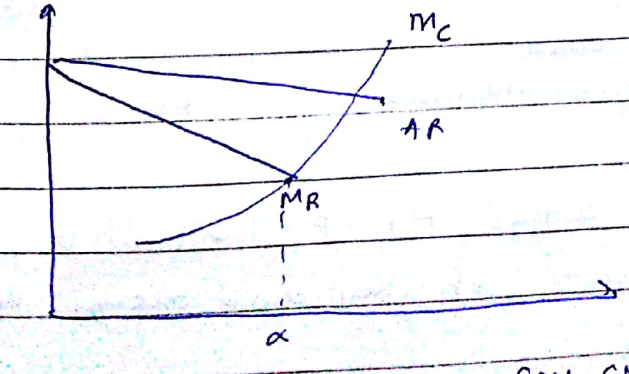
↳ Selling cost : Advertisment
- Manipulative : Surf Excel, etc.
- Educative : Vacc", etc. soft way me dikhate h.

↳ Multiciplicity of Price : Prices are almost competitive (unless some premium product is sold)

→ Imperfect knowledge : experience baad me hoga

→ Concept of Industry & Product Groups :
Here, Industry can't be formed because firms don't produce homogenous products. → Call them 'groups'.

→ AR & MR



② slope ② > ①
More substitutes

Cost Elasticity of Demand is more

Teacher's Signature

Oligopoly : few sellers (dominant)

eg. Maruti suzuki : Passenger car Airtel : Telecom Sector

→ could be homogenous / differentiated product
steel, iron, cement camera, laptops

consciousness of rival actions : Usne ↓ kiya to mai bhi ↓ karu. But mne ↑, wo bhi ↑ : not necessary

Price rigidity : ↓ kiya : war shuru ho jaayega
↑ kiya : mjhe loss hoga

↳ can't keep on fighting for so long

↳ Consolidation in this market is very often. Ultimately, only few players will remain in this market,

↳ sell differentiated products : Non-Collusive / Impur Oligopoly
selling cost : AD karna padega

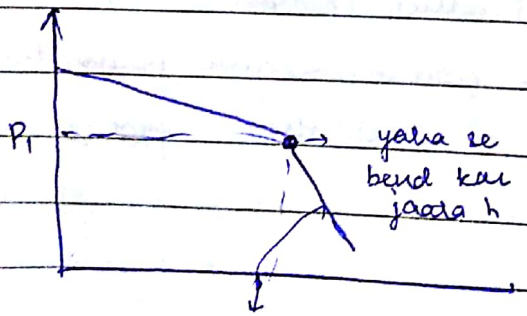
↳ " homogenous : can form an association
→ Pure Oligopoly

Cartel : grouping based on homogenity : not officially allowed in India

↳ Interdependence : Because rivals are there, my decision will depend on other's.

↳ AR curve : also demand curve

Price rigids after some time : kinky demand curve



→ No one wants to change this P because it has stabilised after many wars → sab chup chap accept kar lete h.

Teacher's Signature

Duopoly : Extreme case of Oligopoly

→ Only 2 firms

→ Knowledge is imperfect.

Review Q 1 → Collusion : ✗ (association ✗)

4 → ✗ (Non-Price comp^n)

3 ✓

Slide 32 1. McD → Monopolistic comp^n

2. Food category → can't be Oligopolistic

3. Steel ✓

Slide 33 a. Oligopoly

b. O "

c. ✓

d Only few

36 d

→ Beauty Parlour & saloon : Monopolistic Comp^n.

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5.2 Technological change and Imperfect Compt^n Market

→ Perfect compt^n :→ Homogenous product
↳ tech. hardly play any role (tech will remain same as it was)
↳ no new innovation

→ Market economy :
↑ Productivity
↑ Living stds.
∴ innovate
↳ new src. of Raw Material, new marketing .. can also be called innovation.

→ Tech. ↑ : reaches to maturity : then ↓
⇓
As soon as this stage comes, innovators start working on new tech.

→ Tech. always changes in imperfect compt^n

→ In competitive : pay ≡ what you receive

Imperfect : " << " : Positive Externalities (+ve impact on society)

↳ Why tech. change is possible only in imperfect compt^n ?

→ Compt^n not only in Price, but also how a product is developed. (Non-price compt^n)

→ Patent : feature of imperfect compt^n (Oligopoly)
↳ No one else is allowed to enter into that sector until your Patent expires.

① Heavy R & D expenditure ⇒ stimulates innovation : do patent

Tech. business : Marginal Cost (Straight line)
Traditional " : ('U' curve)

(*)
Slide 7 Original Price : P_0 (Q_0)

You patented, put $P = P_1$ (less than P_0), Q_1

The moment the patent expires, price of P_1 ↓ to P_2
(generic version kharid ke jaayega)
↓
anyone can produce it.

→ Profit. = $\underset{(P_1)}{P} - MC\ (C_1)$

(Innovation se P ↓ (P_2))

But you are taking P_1 (because you've patented it) ⇒ Profit ↑

P_1, Q_1 ⇒
(P↑) (Q↓)

→ Initially in this market, P ↑. Later on it ↓ ⇒ new entries restricted

Slide 8 If you enter : your fixed cost C_1, Q ↓ ($C_2 << C_1$)

already existing ka fixed cost : C_2

⇒ can't compete with them.

Eg. : Companies mfg passenger planes

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5.3 Labour Market

→ How market determines incomes ?

You'll be given job by employer

on basis of : marginal productivity of labor
L

additional labour is productive — Yes, hired
No, not "

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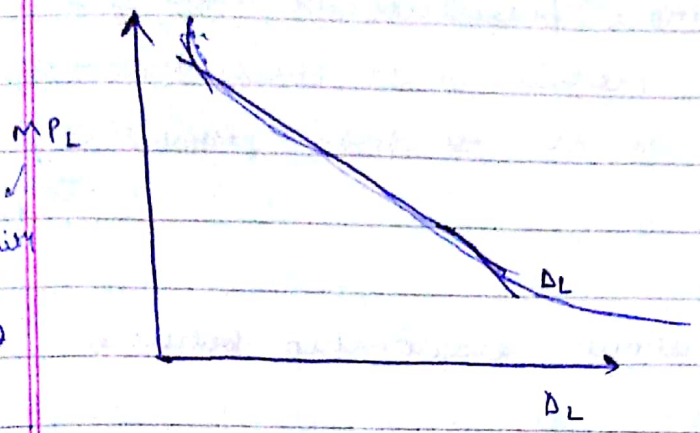
Demand of labour

D_L = f (MP)
↓ demand for labor ↓ marginal productivity



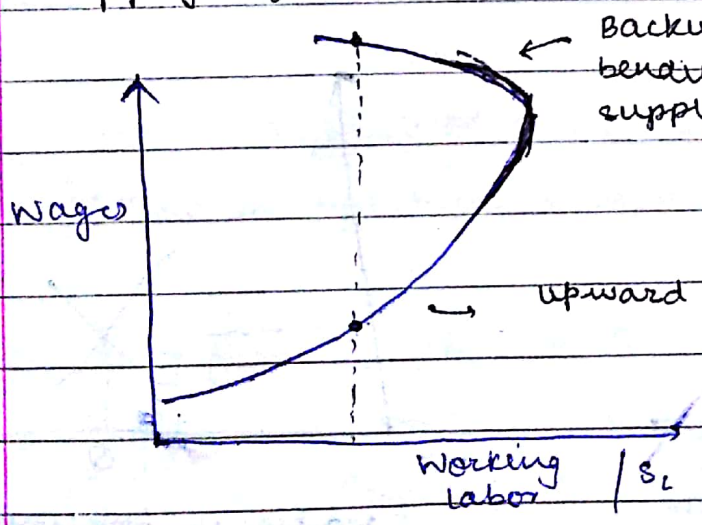
↳ As I hire more labour, marginal productivity ↓.

↳ At hiring time, employer always look for output produced by you.

High salary ⇒ high turn out / burn out

whatever business you bring to table : a part of it is given as salary.

Supply of labour



S_L = f (W)

Higher the wage : supply of labour ↑
(jyaada log apply karenge jaha salary ↑ h)

↳ Individually : A person works for more hrs if ↑ in wage rate.

Wages → salary / Pkg / Cost to Company

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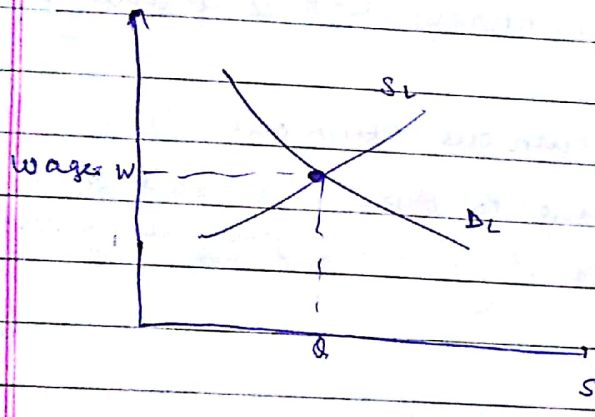
Backward bending :

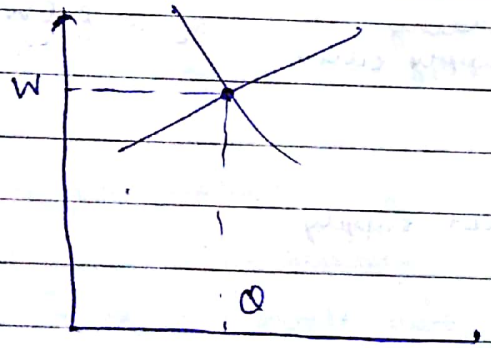
→ Initially, you give more preference to money. ← more working hrs.
After sometime, your motive is to spend that money.
So, start substituting working hrs to leisure time. ↓ requires time

↳ This curve also tells about relationship between working hours and leisure time.

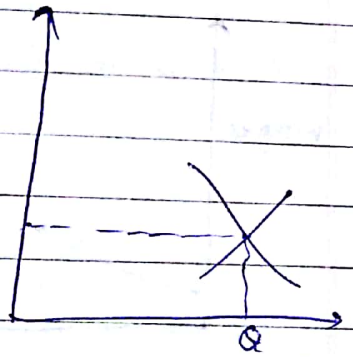
↳ Balance b/w both is necessary.



if you're scarce
⇓
eqm point is ~~ob~~ higher side



In case of surgeon
(scarce)
Q (less)
↓
skilled one,
scarce
less labour : paid more



worker in Dominos
(abundant)
Q (more)
↓
can get such people
in abundance

→ Market me skewedness h (skewed distribution)
↓
ek side palda
bhari h, not balanced

{Eg. ~~B.Tech~~ B. Tech. : ↑
Diploma : ↓
Price ↑↑ ← plumber, carpenter }

Hotel Management

(Chef) : Scarce → Skewed distribution

1 Plane → 700 Cr

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Pilots ⇒ scarce : Paid much higher wages

2) There's a time lag : rx^n aane me time lgta h.

Plane liya lease pe :→ pilots (Indian) gurgaon hone me time lagega (train hone me)

So, you hire foreign pilots

→ You're always given that much money s.t. you don't transfer to another one :— Transfer earning

Why Wage Rate Differs?

1) Skills are different : skill based job are high-paids.

Air hostess ≡ Waiter : Services are same

But skills required are not same.

hence, wages paid are different.

2) Education qualifications :

3) Experience : Experienced people only become experts.

↳ how you can make it more vivid & enriching, not just working

4) Productive : Result-oriented (Coaching)

5) : Reach ↑ ⇒ Payment ↑ (IPL, Concerts)

↳ Some people have short span of earning.

↓

us time pe aaye : isliye they charge higher

in that span only, they're to earn for whole life.

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5.4 Market failure

→ The market at which we are looking for competitive way, → don't get it : failure.

↓

Market of sunshine, air, etc.

Market

↳ don't allocate certain goods

or ↳ under / over allocation of goods → distorts the structure

↓

eg: mineral water

↳ don't want to look how my actions will affect society (benefits & costs), only concerned about my own benefits & costs (Eg: Marriage Hall near a society)

↳ if it can't be corrected by market : market failure

get

govt involved in such cases

Causes :-

i) Monopoly : no entry / exit

set high price → under production (allocation)

↑

produce less to get high price

2) Imperfect market information

↳ 2 parties don't have equal stock of info. : Asymmetric info.

2 Consequences of Asymmetric info.

Adverse Selection	Moral hazard
→ Seller has more info. than Buyer	→ Buyer has more info than seller
→ TV : sett slimming pills ad	→ company ne pucha : ye aata h, ye aata h — Haa
Buyer : liya not affective ⇓ Wrong selection (not benefitted)	Afterwards, don't know

wrong ←

common goods that are available to whole world : global good (global commons)

if it has +ve property ← if -ve property : → Public bad (Air Poll^n)

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→ Eg. : Doctors : fees

many tests

→ Eg. : House : Info. (2nd hand)

about house

seller has more info.

→ Problem → seller → deterioration value

Lemon's Problem

when you buy 2nd hand car, you look at seller with suspicious eyes. So, all 2nd hand cars are sold at ↓ price (even if it is good). Hence, only bad cars will enter this market.

Itna sasta kyu de rha h? Itni jaldi kyun bech rha h.

* Adverse selection creates this problem

→ Insurance leja : you'll be taking more risks. Company don't know about your behaviour.

→ Fire Insurance leja : your behavior changes.

→ In advance, buyer's behavior can't be judged

→ tenant's behavior : Rent

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3.) Public goods : For which you don't pay but still enjoy (Air)

→ Air, sunshine, Army, Defence

2 characteristics :

↳ Non-rivalry : If I consume more, others don't need to consume less

↳ Non-excludability : You can't prevent people from consuming good. : Free rider problem

Anyone can't be excluded

even though you don't pay, you still enjoy (or some pay but you still enjoy without paying)

Highways / Park : Congestable Public Good (some may occupy some space)

→ Market can't allocate Public goods / bads. There's no market for these goods

4) Externalities : When you produce, you always look for your own cost, don't look for society
↓ private cost ↓ social cost

↳ spill over effect / 3rd party effect.

may affect the society +vely / -vely

* Market can't decide which is +ve / -ve externality

+ve externality (social benefit) — No one pays for it.

-ve externality (social cost)

↳ If you can't pay in your profits, you won't be rewarded even if you're in loss.

Eg. 1) Agar aapne insecticides daale aur unnd se uno doosre ke farm me drain gye toh aap uske owner ko pay karne ke liye nhi keh skte.

2) Vaccination karwaya :- +ve externality

+ve → (But bagal wala apko pay nhi karega :- Humne thodi kha tha karane ke liye

-ve → * nhi karwaya :- Aap bologe mne thodi kha tha saamne aane ke liye ;)

→ To get actual cost : should look at private + social cost) not possible in market

Aggregate → works completely on Income (central thing)

6. MACRO ECONOMICS

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↳ Poverty, Inflation, low GDP : can't be dealt by Micro Economics
↳ Here, we talk about aggregate price, suply, demand — (general price)
↳ Collective approach
↳ Acc. to economy (→ sab aisa nikla ke) : Macro is relevant (talk in broader sense)
deals with firm : Micro

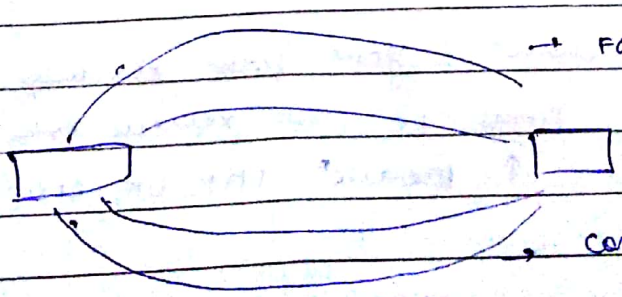
6.1 Circular Flow of Income : model

↳ everyone is a consumer of money
↳ There's a flow from you to seller & flow of goods / services from seller to you.
Macro - E follows the money.
↳ Expenditure for u = Income for other. (Yes food nhi tha Micro me)

Output → Income → Expenditure (all parties are entirely diff)

→ 2 primary agents in this model
households & firms

→ Factor of products ko payo kiya : Factor payment
↳ that market : Factor market



limit^n 1.) we assume that you work in a company & buy products from that company only. → so that they have no good left
again ask you for Labor, — : cycle goes on

2) we are assuming there's no saving. You're spending all ~~100~~ money

But there's saving : The firm will keep lng hiring
(100 mile : 80 khaach kiya : company ka pass 20 abhi bhi it'll hire acc. to 80)

may result in

→ In market, investors & those who save are diff

→ saving : creates leakage in circular flow

↳ Financial Market → Firm : circular flow again maintained

→ enhancing flow : Injection

$$\left.\begin{array}{rcl} Y & = & C + S \\ \text{Income} & & \text{consump}^{n} \quad \text{saving} \end{array}\right\} \Rightarrow \boxed{S = I}$$

or $Y = C + I$

Theoretically, : $\boxed{Y = E = O}$: circular flow

E → Expenditure, O → O/P

(FOUR Sector Economy)

Govt. & Foreign Nations also involved

↳ Transfer payment : don't work for govt. but still get payment from govt. (scholarship / schemes)

↳ Remittances / Purchase : govt. firm se buy kari h

↳ Subsidy : Firms ko tax relieve krke deti h to ↑ produc^{n} (CHP, UK, etc)

→ working in U.S. : exporting manpower (Household ↕ Foreign nations)
& return remittance to your family

BOP : Balance of Product

Forex : Foreign Currency

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Domestic Income = C + I + G

National " = " + (X - M)

Leakage : I + T + S

BOP : Balance of Product

Forex : Foreign Currency

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Domestic Income = C + I + G

National " = " + (X - M)

Leakage : I + T + S

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6.2 Basic Macro-economic concepts

→ Factor Income from Abroad : Some live in foreign & send salary to India

, Domestic Income

1.) GDP → jo country me produce hua h

2.) GNP → jo foreign se aa rha h. : Visa tough ⇒ may have to come back ⇒ rely more on GDP

→ rely more on GDP

→ Every country has 3 sectors

1.) Agriculture
2.) Industrial
3.) service

→ Income generated by this ≡ Domestic Income

Net Foreign Income (NFIA) : jo indians foreign se bhej rhe h — jo foreigners India me reh ke bahar bhej rhe h

GDP + NFIA = NY (National Income)

↳ Rupee value generated in country ⇒ GDP

→ India's GDP = among top 10 nations
(2.2 ↓ T Dollar)

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0.5/2

Economic growth = GDP (this year) − GDP (last year)

If 105 100

→ Economic growth : 5 %

↓

jab badhega, nation ka income also ↑

To find national economy :

1) Can find ~~economic growth~~
2) Kitna

1) Jab - Jab produce kiya, p add karlo
2) Jinhone kaam ~, unka payment add karlo → By Income
3) Jo spend kiya market me, add karlo → By expenditure

GDP : only add final good value (market value)
(Car : don't add prices of separate parts, just add final value of car)
↳ because no value already added in final value me

→ Air / sunshine : don't have market value

→ To differentiate b/w Intermediate & final good
↓
have to see end user.

Output ←

GNP product ← Income ← Expenditure

↳ GDP + Net foreign factor income

Normal resident : Jo ek country me ek saal se jyaada rehta h & has some business interest
(not a student studying in foreign)
↓
not a citizen of that country

Citizen ⟹ Normal Resident, not vice-versa

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Slide 10 Amazon : MNC from U.S.

capital → machinary labor → delivery boy

Business India me h, charge yaha kr rhe h :→ will contribute to India's GDP.

↓

they're using our resources → because it's happening at our land ⇒ They can take profit to their own country

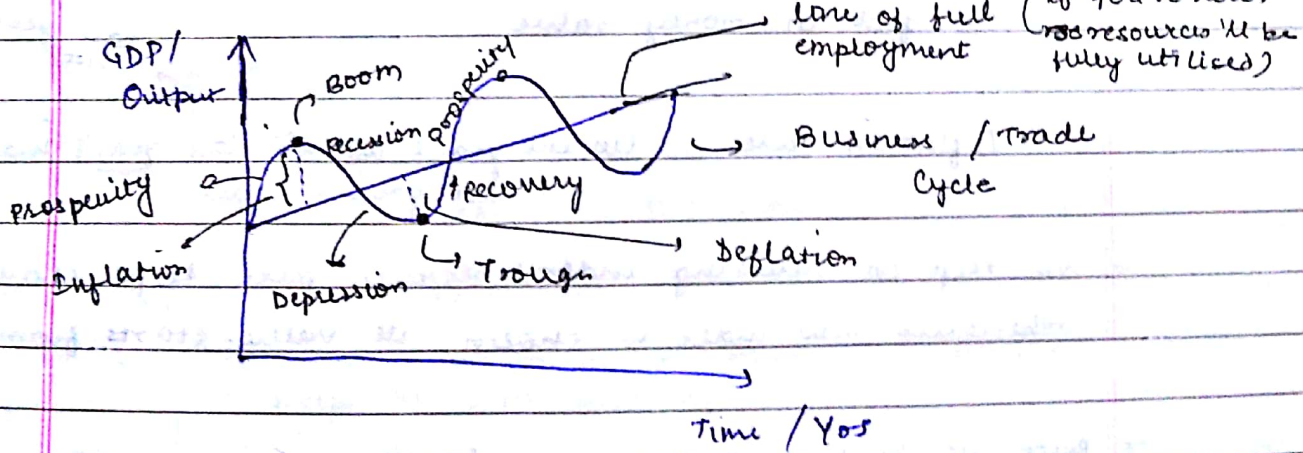
↳ whoever enters India → contributes to GDP
(create resources in our country)

→ Business / Trade Cycle : ∿∿∿ (Economic expand & contract)

1. GDP
2. Inflation rate
3. Unemployment rate

↳ Economy never is static. It either contracts or expands

⇒ Recession : If ↓ upto 2 quarters, GDP is falling



Severe form of Recession → Depression

↳ Not necessary that we ∿ have same curve always

above line : Inflation

below line : Deflation

Prosperity : ↑↑ , Jobs ↑ : reach top-most point

↓

Recession will occur

→ Business Cycle when starts, when ends → can't be predicted

→ Recession ~~can't~~ is integral part of any economy

Recession : when neighbour looses job

Depression : when you loose job

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↓ Phases

2. Peak : max. Profit also

Inflation : Rise in general price level

↳ fall in money value

$$\text{Inflation rate} = \frac{\text{Current year's index} - \text{last year's index}}{\text{Last year's index}} \times 100$$

(base year (100))

↳ we keep on revising index because price keeps changing. whenever new index is chosen, its value starts from 100.

→ Price we buy as customer :- Consumer Price Index (Retail - -)

→ who buy in bulk :- Wholesale Price Index

↓

base value jisse hum measure karna chahte h & want to make comparison (start with 100)

Unemployment : Want to work but can't due to unavailability of jobs

↳ Popl^n = Labour force + Not in labour force (kids + aged)

↳ Labour force = Employed + Unemployed

↳ Unemployment rate = $\frac{\text{Unemployed}}{\text{Labour force}} \times 100$ [9% ← India]

↳ Labour force participation rate = $\frac{\text{Labour force}}{\text{Popl}^n} \times 100$

Monetary policy : (related with money)

To control inflation → (inflation rate will ↓) put less money into hands of people

money most liquid form :→ can be shaped into anything.

Precious jwellery, property :→ nearly money (have to convert to money then use as anything)

↳ **Legal Tendor** :- Note only has face value. It's illegal to sell ~~not~~ in price more than face value of currency.

↓ Premium

(₹100 ke 5-5 ke coins kine gaye : he gives you 18 coins & keeps 10 with himself).

↓ charges premium.

↳ P ko kam karne ke liye : give less money into hands of people

↓ not buying

give more money to ↑ Demand

→ Only 1 tool doesn't work in case of Inflation.

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Investment : jo business me lag rha h
Consumption : Consumer consume krta h.

↳ Bank Rate of Interest :- Commercial bank ki lending capacity RO affect krta h.

During inflation : Rate ↑ ⇒ People will borrow less

↳ Cash Reserve Ratio :- Bank keeps some portion of deposit in cash.

In Inflation : ↑ CRR ⇒ liquidity ↓

After : ↓ CRR

one runs with money
→ Risk free (if some : still have some money)

↳ SLR : Banks have to invest in govt. securities, gold.

Inflation ⇒ SLR ↑ ⇒ Bank's money ↓ available to lend
(money RBI ke paas chala jaata h which don't give loans)

↳ Repo Rate : Rate at which RBI lends money to commercial banks.

Repo Rate ↑ ⇒ Banks will take ↓ money

RR :⇒ always higher but when RBI takes loan from other banks (Rep. Rate) is always ↓. [generally, 1% difference]

→ Kyu de? → safe hands.

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Marginal standing facility rate : Marginally, you can borrow some more at higher RR.

↳ Base Rate : to lend money, min. rate

+

Banks add additional rate

Fiscal Policy : Related with revenue & expenditure of govt.

↓

tax + non-tax

↓

Broader tool

recession ↑ ⇒ govt. ↑ its expenditure → people get more jobs

Market cap = total share x Price of each share

TCS → 100 M Paf → 10 M

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Indian Economy

↳ Popl^n : strength if more people are educated

↳ have minerals

↳ 66 % → Rural

→ Agriculture → labor intensive
employes 45 %. but contributes only 15 %.

→ services → Capital intensive
employs ~27 %. but contributes 63 %.

fiscal deficit = Excess of govt. expenditure compared to revenue

slide 9 → 4th Row. ∴ balance ≃ deficit

→ HDI : life expectancy, literacy,