UNIT – III

MARKETS AND NEW ECONOMIC ENVIRONMENT

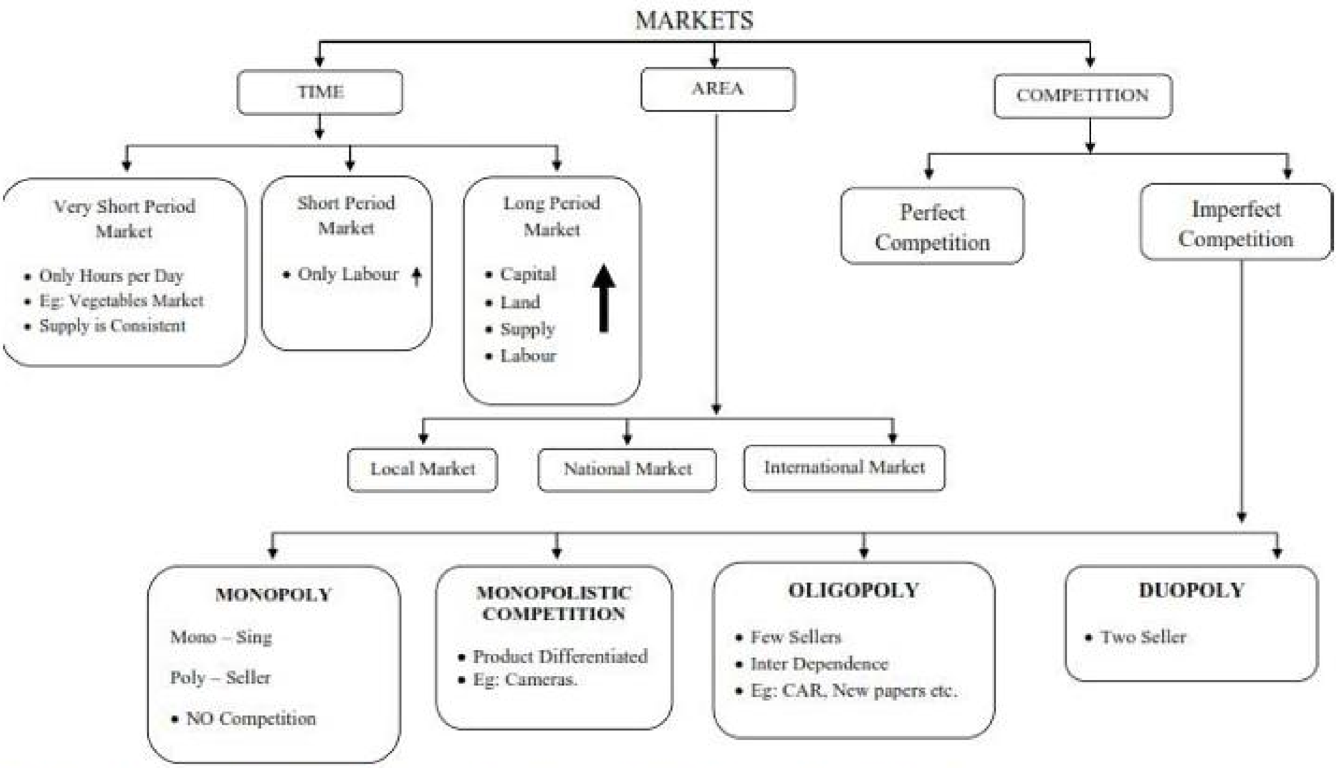
1. Define markets and explain how markets areclassified?

A market may be also defined as the demand made by a certain group of potential buyers for a good or service. The former one is a narrow concept and later one, a broader concept.

Economists describe a market as a collection of buyers and sellers who transact over a particular product or product class (the housing market, the clothing market, the grain market etc.).

For business purpose we define a market as people or organizations with wants (needs) tosatisfy, money to spend, and the willingness to spendit.

Market structure describes the competitive environment in the market for any good or service. A market consists of all firms and individuals who are willing and able to buy or sell a particular product. This includes firms and individuals currently engaged in buying and selling a particular product, as well as potential entrants.



2.What is a perfect and imperfect market? Describe itsfeatures.

Perfect competition refers to a market structure where competition among the sellers and buyers prevails in its most perfect form. In a perfectly competitive market, a single market price prevails for the commodity, which is determined by the forces of total demand and total supply in themarket.

Features of Perfect Competition

The following features characterize a perfectly competitive market:

- A large number of buyers and sellers
- Homogeneousproduct
- Free entry andexit
- Perfectknowledge
- Indifference
- Non-existence of transportcosts
- Perfect mobility of factors ofproduction

Features of Imperfect Competition

- Monopoly
- Monopolistic Competition
- Oligopoly
- Duopoly

Features of monopoly

The following are the features of monopoly:

1. Single person or afirm
2. No closesubstitute
3. Large number ofBuyers
4. Price Maker
5. Supply andPrice
6. Downward Sloping DemandCurve

Features of Monopolistic Competition

The important features of monopolistic competition are:

1. Existence of Manyfirms
2. ProductDifferentiation
3. Large Number ofBuyers
4. Free Entry and Exist ofFirms
5. Sellingcosts
6. ImperfectKnowledge

Features of Oligopoly

The main features of oligopoly are 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.

1. Few Firms

2. Interdependence
3. Indeterminate DemandCurve
4. Advertising and sellingcosts
5. Price Rigidity

1. **Explain features of monopolistic competition. How price and out-put is determined?**

Perfect competition and pure monopoly are rate phenomena in the real world. Instead, almost every market seems to exhibit characteristics of both perfect competition and monopoly. Hence in the real world it is the state of imperfect competition lying between these two extreme limits that work. Edward. H. Chamberlain developed the theory of monopolistic competition, which presents a more realistic picture of the actual market structure and the nature of competition.**Features of MonopolisticCompetition**

The important features of monopolistic competition are:

a) Existence of Manyfirms
b) ProductDifferentiation
c) Large Number ofBuyers
d) Free Entry and Exist ofFirms
e) Sellingcosts
f) ImperfectKnowledge

Price – Output Determination under Monopolistic Competition

Since under monopolistic competition different firms produce different varieties of products, different prices for them will be determined in the market depending upon the demand and cost conditions. Each firm will set the price and output of its own product. Here also the profit will be maximized when marginal revenue is equal to marginal cost.

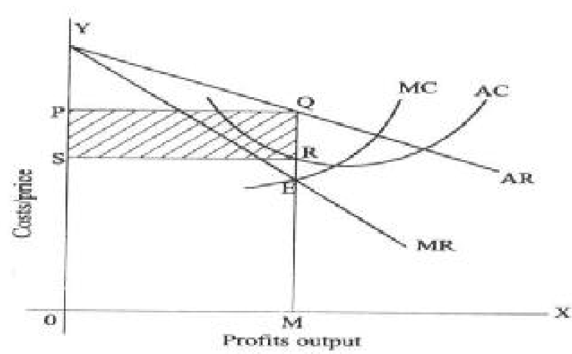


Fig. 6.15

Short-run equilibrium of the firm

If the demand and cost conditions are less favorable the monopolistically competitive firm may incur loss in the short-run

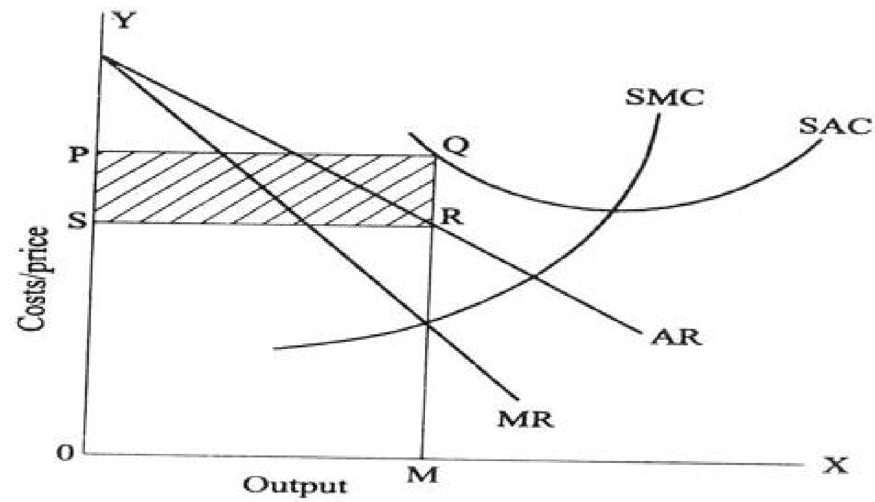


Fig. 6.16

Long – Run Equilibrium of the Firm:

A monopolistically competitive firm will be long – run equilibrium at the output level where marginal cost equal to marginal revenue. Monopolistically competitive firm in thelong run attains equilibrium where MC=MR and AC=AR Fig 6.17 shows thistrend.

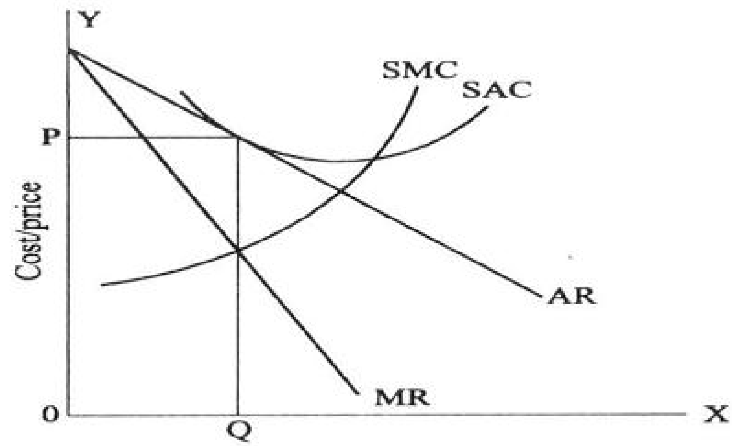


Fig. 6.17

Price determinants – Demand and supply

The price of a product is determined by the demand for and supply of that product. According to Marshall the role of these two determinants is like that of a pair of scissors in cutting cloth. It is possible that at times, while one pair is held fixed, the other is moving to cut the cloth. Similarly, it is conceivable that there could be situations under which either demand or supply is playing a passive role, and the other, which is active, alone appear to be determining the price. However, just as one pair of scissors alone can never cut a cloth, demand or supply alone is insufficient to determine theprice.

Equilibrium Price

The price at which demand and supply of a commodity is equal known as equilibrium price.

Price output determination under MONOPOLY (EquilibriumPoint)

The monopolistic firm attains equilibrium when its marginal cost becomes equal to the marginal revenue. The monopolist always desires to make maximum profits. He makes maximum profits when MC=MR. He does not increasing his output if his revenue exceeds his costs. But when the costs exceed the revenue, the monopolist firm incur loses. Hence the monopolist curtails his production. He produces up to that point where additional cost is equal to the additional revenue (MR=MC). Thus, point is called equilibriumpoint.

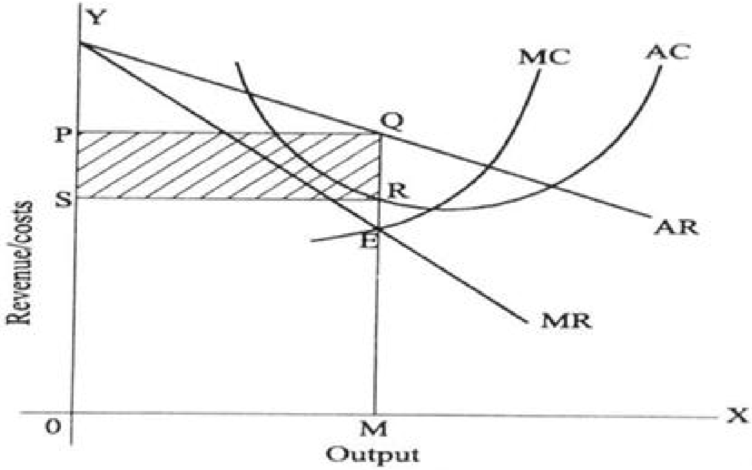
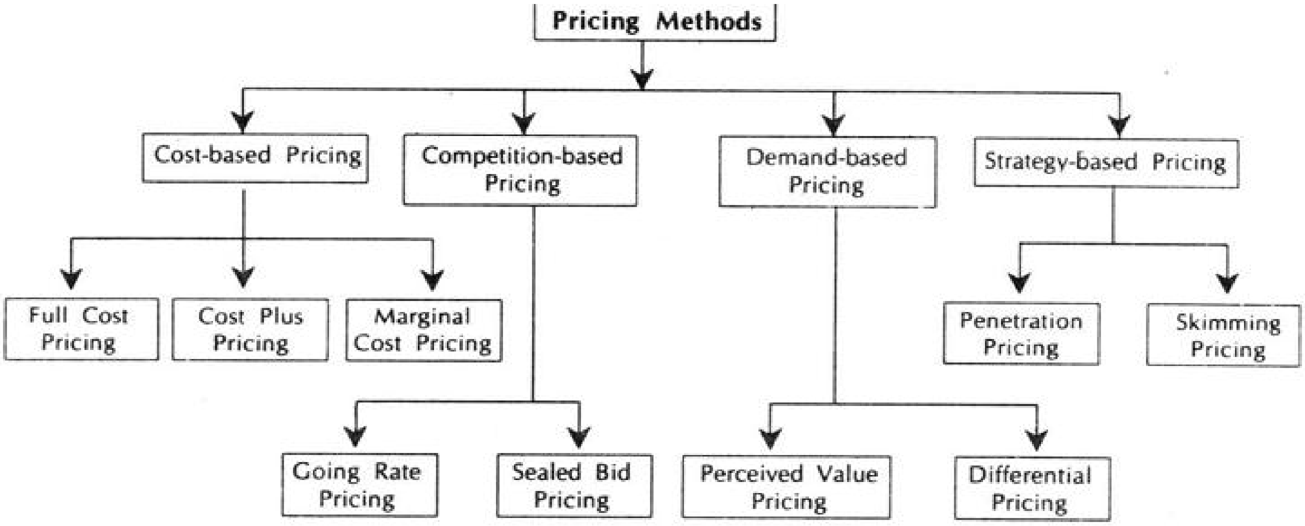


Fig. 6.12

The above diagram (Average revenue) = MQ or OP
Average cost = MR
Profit per unit = Average Revenue-Average cost=MQ-MR=QR
Total Profit = QRXSR=PQRS
The area PQRS resents the maximum profit earned by the monopoly firm.
But it is not always possible for a monopolist to earn super-normal profits. If the demand and cost situations are not favorable, the monopolist may realize short run losses

5) Explain various pricing methods followed by businessorganizations?

The micro – economic principle of profit maximization suggests pricing by the marginal analysis. That is by equating MR to MC. However, the pricing methods followed by the firms in practice around the world rarely follow this procedure. This is for two reasons; uncertainty with regard to demand and cost function and the deviation from the objective of short run profit maximization.



PRICING OBJECTIVES:

1. **Monitory pricingobjectives:**
   a) To achieve a targeted return oninvestment
   b) To maximize theprofits
   c) To increase salesvolume
   d) Pricingstabilization

2. Non-monitory pricingobjectives

a) Society orientedobjectives
b) Maximize marketshare
c) Operation orientedobjectives
d) Patronase orientedobjectives

PRICING POLICY:the pricing policy of a company sends out signals about the company philosophies. It helps in creating that perception in customer's mind.

a) Negotiations
b) Quality
c) Discounts

BUSINESS FEATURES AND EVALUATION OF DIFFERENT FORMS OF BUSINESSORGANIZATION

6) Explain the features of sole trade organization. Discuss the merits and demerits ofsole trade form oforganization.

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, skilland

intelligence. He is the boss for himself. He has total operational freedom. He is the owner, Manager and controller.

Features:

a) It is easy to start a business under this form and also easy toclose.
b) He introduces his own capital. Sometimes, he may borrow, ifnecessary
c) He enjoys all the profits and in case of loss, he lonesuffers.
d) He has unlimited liability which implies that his liability extends to his personal properties in case of loss.
e) He has a high degree of flexibility to shift from one business to the other.
f) Business secretes can be guardedwell
g) 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 berestored.
h) He has total operational freedom. He is the owner, manager andcontroller.
i) He can be directly in touch with thecustomers.
j) He can take decisions very fast and implement thempromptly.
k) Rates of tax, for example, income tax and so on are comparatively verylow.

Merits

The following are the merits of the sole trader from of business organization:

a) Easy to start and easy toclose
b) Personal contact with customersdirectly
c) Promptdecision-making
d) High degree offlexibility
e) Secrecy
f) Low rate oftaxation
g) Directmotivation
h) TotalControl
i) Minimum interference fromgovernment
j) Transferability

Demerits

The following are the demerits of sole trader form:

a) Unlimitedliability
b) Limited amounts ofcapital
c) No division ofLabour
d) Uncertainty
e) Inadequate for growth andexpansion
f) Lack ofspecialization
g) More competition

h) Low bargainingpower

7) Explain the features, merits and limitations of Joint StockCompany?

The joint stock company emerges from the limitations of partnership such as joint and several liability, unlimited liability, limited resources and uncertain duration and so on. Normally, to take part in a business, it may need large money and we cannot foretell the fate of business. It is not literally possible to get into business with little money. Against this background, it is interesting to study the functioning of a joint stock company. The main principle of the joint stock company from is to provide opportunity to take part in business with a low investment as possible say Rs.1000. Joint Stock Company has been a boon for investors with moderate funds toinvest.

The word 'company' has a Latin origin, com means 'come together', pany means 'bread', joint stock company means, people come together to earn their livelihood by investing in the stock of company jointly.

Features

This definition brings out the following features of the company:

1. Artificialperson
2. Separate legalexistence
3. Voluntary association ofpersons
4. LimitedLiability
5. Capital is divided intoshares
6. Transferability ofshares
7. CommonSeal
8. Perpetualsuccession
9. Ownership and Managementseparated
10. Windingup
11. The name of the company ends with'limited'

Advantages:

The following are the advantages of a joint Stock Company

a) Mobilization of largerresources
b) Separate legalentity
c) Limitedliability
d) Transferability ofshares
e) Liquidity ofinvestment
f) Inculcates the habit of savings andinvestments
g) Democracy inmanagement
h) Economics of large-scale production
i) Continuedexistence
j) Institutionalconfidence

k) Professionalmanagement
l) Growth andExpansion

Disadvantages

a) Formation of company is a long-drawnprocedure
b) High degree of governmentinterference
c) Inordinate delays indecision-making
d) Lack orinitiative
e) Lack of responsibility andcommitment
f) Lack of responsibility andcommitment

8) Explain features of partnership with its merits anddemerits.

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 apartnership.

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

a) Relationship
b) Two or morepersons
c) There should be abusiness
d) Agreement
e) Carried on by all or any one of them acting forall

The following are the other features:

1) Unlimitedliability
2) Number ofpartners
3) 10 partners iscase of bankingbusiness
4) 20 in case of non-bankingbusiness
5) Division ofLabour
6) Personal contact withcustomers
7) Flexibility

Advantages:

The following are the advantages of the partnership from:

a) Easy toform
b) Availability of larger amount ofcapital

c) Division ofLabour
d) Flexibility
e) Personal contact withcustomers
f) Quick decisions and promptaction
g) The positive impact of unlimitedliability

ıdvantages:

The following are the disadvantages of partnership:

a) Formation of partnership isdifficult
b) Liability:
c) Lack of harmony or cohesiveness
d) Limitedgrowth
e) Instability
f) Lack of Publicconfidence

9) Explain different types of public sectorenterprises?

Public enterprises occupy an important position in the Indian economy. Today, public enterprises provide the substance and heart of the economy. Its investment of over Rs.10,000crore is in heavy and basic industry, and infrastructure like power, transport and communications. The concept of public enterprise in Indian dates back to the era of pre-independence.

:ures:

- Under the control of a governmentdepartment
- More financialfreedom
- Like any other governmentdepartment
- Budget, accounting and auditcontrols
- More a government organization, less a businessorganization

antages

1. Effective control
2. Responsible Executives
3. Less scope for mystification offunds
4. Adds to Governmentrevenue

ıdvantages:

1. Decisionsdelayed
2. No incentive to maximizeearnings
3. Slow response to marketconditions
4. Redtapism andbureaucracy
5. Incidence of more taxes