UNIT – III
INTRODUCTION TO MARKETS

Market is a place where buyer and seller meet, goods and services are offered for the sale and transfer of ownership occurs. A market may be also defined as the demand made by a certain group of potential buyers for a good or service. 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) to satisfy, money to spend, and the willingness to spend it. Broadly, market represents the structure and nature of buyers and sellers for a commodity/service and the process by which the price of the commodity or service is established. In this sense, we are referring to the structure of competition and the process of price determination for a commodity or service. The determination of price for a commodity or service depends upon the structure of the market for that commodity or service (i.e., competitive structure of the market). Hence the understanding on the market structure and the nature of competition are a pre-requisite in price determination.

DEFINITION:

Market is defined as a place or point at which buyers and sellers negotiate their exchange of well-defined products or services.

Traditionally, Market was referred to as a public place in a village or town. Where provisions and other objects were brought to sale. But in modern context, market refers to a meeting point of buyer, and seller, not necessarily a geographical one.

MARKET STRUCTURES

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.

The determination of price is affected by the competitive structure of the market. This is because the firm operates in a market and not in isolation. In marking decisions concerning economic variables it is affected, as are all institutions in society by its environment.

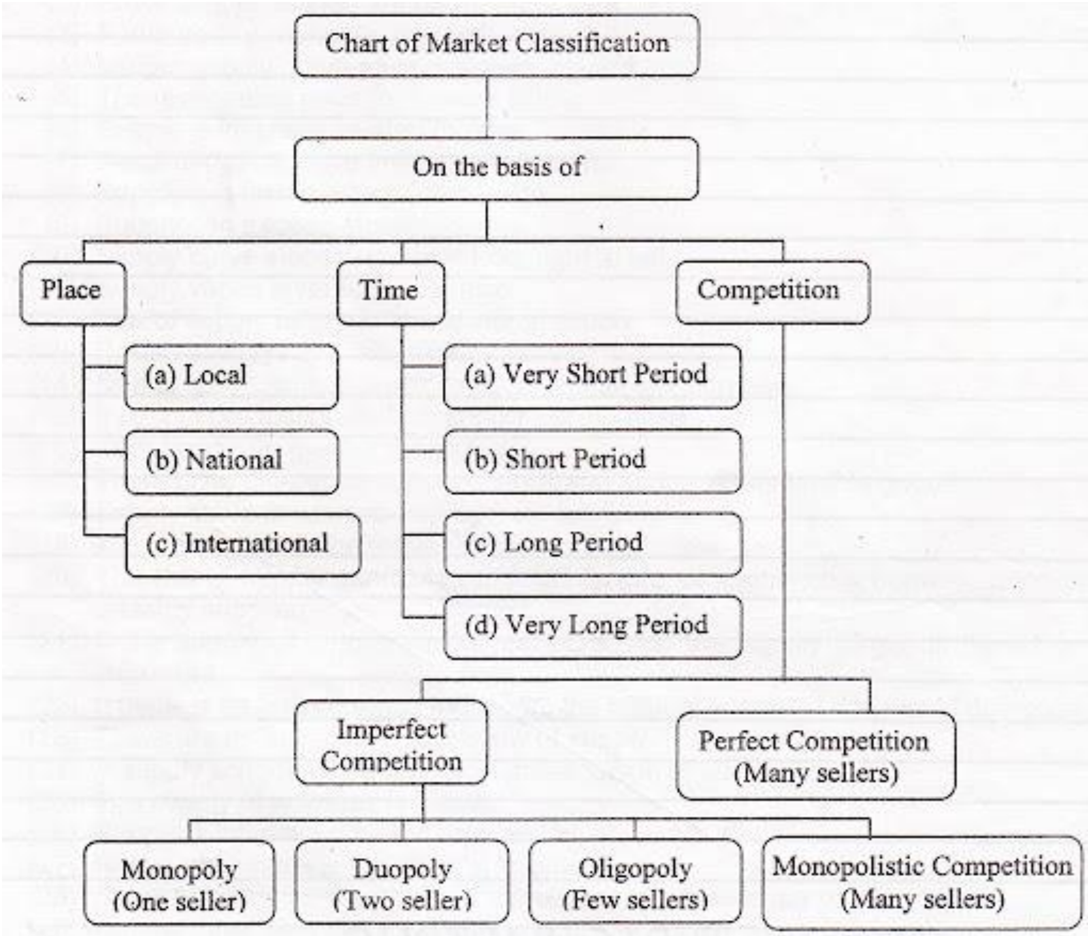
Features of Market Structure:

Some of the features that go into market structure consideration include:

- Seller entry barriers, or how hard it is for a new company to emerge within the market
- Seller exit barriers, or how hard it is for a new company to leave the market
- The degree to which company products are homogeneous or differentiated (Homogeneous goods are goods which are identical in all respects like quality, colour, size, weight, design, etc. while differentiated goods are the goods which are same in their core functioning but different in some other aspects.)
- Number of companies in the market
- Number of customers who participate in the market
- Product Price

MARKET CLASSIFICATION

Broadly there are two classifications of markets – the product market and the factor market. The factor market refers to the market for the buying and selling of factors of production like land, capital, labor, etc. The other classification of markets are as follows,



On the Basis of Area/Place

i. Local Market

The market limited to a certain place of a country is called local market. This type of market locates in certain place of city or any area and supplies needs and wants of the local people. Perishable consumer products such as milk, vegetables, fruits, etc are sold and bought in local markets.

ii. National Market

If buying and selling of some products is done in the whole nation, this is called national market. The products such as clothes, steel, cement, iron, tea, coffee, soap, cigarette, etc are bought and sold nationwide.

iii. International or Global Market

Market cannot be limited to any geographical border of any country. If the goods produced in a country are sold in different countries, this is called international market. today, not any country of the world is self-dependent. All the countries are exporting the goods produced in other countries. The market of some goods such as gold, silver, tea, clothes, machines and machinery, medicines etc. has spread the world over.

On the Basis of time

On the basis of time, market can be divided in very short-term, short-term, long term and very long-term market.

i. Very Short-term Market

The market where shortly perishable goods are sold is called very short-term market. The market of milk, fish, meat, fruits and other perishable goods is called very short-term market. The price of perishable goods is determined according to the pressure of demand. When the demand for such goods is high, price rises and when demand declines, the price falls down. If the supply is low and the demand is high, the price rises higher.

ii. Short-term Market

In the short term market, supply of products can be increased using the maximum capacity of installed machines of the firm. The goods cannot be produced according to the demand for adjustment of supply by expanding or changing the existing machines and equipment. In short-term market, price of the goods is determined on the basis of interaction between demand and supply. But, as the supply cannot meet the demand, demand affects price determination in short-term market.

iii. Long-term Market

In long-term market, adequate time can be found for supply of products according to demand. New machines and equipment can be installed for additional production to meet demand. As supply can be decreased or increased according to demand situation, price is determined by interaction between demand and supply in long-term market. Market of durable products is long-term market.

iv. Very Long-term Market or Secular Market

In secular market, produces can get adequate time to use new technology in production process and bring new changes in products. They become able to produce and supply goods according to changed needs, interest, fashion etc. of customers. Market research becomes helpful in doing so.

On the Basis of Competition

1. Perfect Competition
2. Imperfect Competition

PERFECT COMPETITION

Perfect competition is a market structure characterized by many buyers and sellers, homogeneous products, perfect information, and ease of entry and exit. The market with perfect competition conditions is known as perfect market.

Features of perfectly competition

1. **A large number of buyers and sellers:** The number of buyers and sellers is large and the share of each one of them in the market is so small that none has any influence onthe market price.

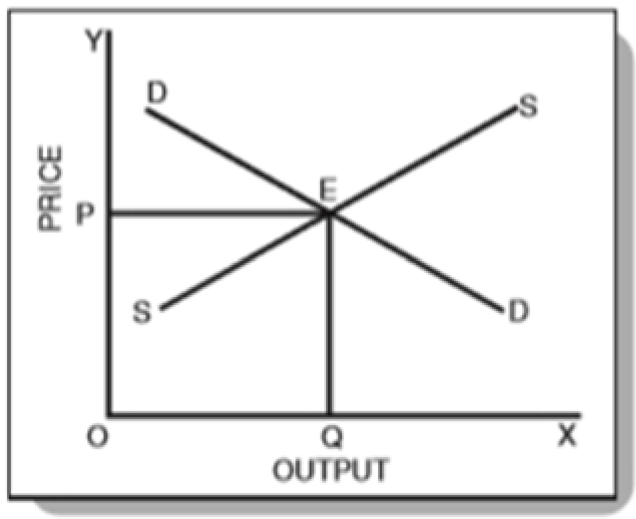
   There should be significantly large number of buyers and sellers in the market. The number should be so large that it should not make any difference in terms of price of quantity supplied even if one enters the market or one leaves the market.

2. **Homogenous products or services:** the products and services of each seller should be homogeneous. They cannot be differentiated from that of one another. It makes no difference to the buyer whether he buys from firm X or firm Z. in other words, the buyer does not have any particular preference to buy the goods from a particular trader or supplier. The price is one and the same in every firm. There are no concessions or discounts.
3. **Freedom to enter or exit the market:** there should not be restrictions on the part of the buyers and sellers to enter the market or leave the market. There should not be any barriers. The buyers can enter the market or leave the market whenever they want.
4. **Prefect information available to the buyers and sellers:** each buyer and seller has total knowledge of the prices prevailing in the market at every given point of time, quantity supplied, costs, demand, nature of product, and other relevant information. There is no need for any advertisement expenditure as the buyers and sellers are fully informed.
5. **Perfect mobility of factors of production:** there should not be any restrictions on the utilization of factors of production such as land , labour, capital and so on. In words, the firm or buyer should have free access to the factors of production. Whenever capital or labor is required, it should instantly be made available.
6. **Each firm is a price taker:** an individual firm can alter its rate of production or sales without significantly affecting the market price of the product, a firm in a perfect market cannot influence the market through its own individual actions. It has no alternative other than selling its products at the price prevailing in the market. It cannot sell as muchas it wants at its own set price.

Price Output Determination of Perfect Competition Market /Price Determination:-

The price or value of a commodity under perfect competition is determined by the demand and the supply of that commodity. Let us construct hypothetical demand and supply schedule to show how price is determine by these two factors.

PRICE	SUPPLY(UNITS)	DEMAND(UNITS)
1	100	500
2	200	400
3	300	300
4	400	200
5	500	100



In the above diagram, along Ox-axis demand and supply(Output) and along Oy-axis prices are taken 'DD' is the demand curve and 'SS' is the supply curve. Here both curves intersect at point 'E' which determines the price 'OP'. This price satisfies both the buyers and sellers. Hence, the price is known as "Equilibrium price or market price”.

<u>IMPERFECT COMPETITION:-</u>

Imperfect competition is a competitive market situation where there are many sellers, but they are selling heterogeneous (dissimilar) goods as opposed to the perfect competitive market scenario.
Based on the number of buyers and sellers, the imperfect markets are classified below

Here 'poly' means sellers and 'psony' means buyer.

Monopoly:-If there is only one seller, monopoly market is said to exist. Here a single seller completely controls the entire industry. It is the only firm producing the given product in its industry.
Ex:- Railways

Monopolistic Competition:-When a large number of sellers produce differentiated products, monopolistic competition said to exist. A product is said to be differentiated when its important features

vary.
Ex:- Restaurants, hair salons, household items, and clothing are examples of industries with monopolistic competition.

Duopoly:- If there are two sellers, duopoly said to exist. If Pepsi and coke are the two companies in soft drinks, the market is called duopoly.

Oligopoly:- If there is competition among a few sellers, oligopoly is said to exist.
Ex-Car manufacturing companies, daily newspaper.

Monopsony:- If there is only one buyer, monopsony market is said to exist.
Ex:- Food corporation of India is the only government organization that purchases the agricultural products such as rice & so on..

Duopsony:- If there are two buyers, duopsony is said to exist. If Zomato and Swiggy are the two companies in Food Delivery, the market is called duopsony.

Oligopsony: If there are a few buyers, oligopsony is said to exist.
Ex:- There are a few news paper publishing companies in India and all these buy news print from the government of India.

MONOPOLY:

The word monopoly is made up of two syllables, Mono and poly. Mono means single while poly implies selling. Thus monopoly is a form of market organization in which there is only one seller of the commodity. There are no close substitutes for the commodity sold by the seller. Pure monopoly is a market situation in which a single firm sells a product for which there is no good substitute.

FEATURES OF MONOPOLY

1. **Single person or a firm:** A single person or a firm controls the total supply of the commodity. There will be no competition for monopoly firm. The monopolist firm is the only firm in the whole industry.
2. **No close substitute:** The goods sold by the monopolist shall not have closely competition substitutes. Even if price of monopoly product increase people will not go in far substitute. For example: If the price of electric bulb increase slightly, consumer will not go in for kerosene lamp.
3. **Large number of Buyers:** Under monopoly, there may be a large number of buyers in the market who compete among themselves.
4. **Price Maker:** Since the monopolist controls the whole supply of a commodity, he is a price-maker, and then he can alter the price.
5. **Supply and Price:** The monopolist can fix either the supply or the price. He cannot fix both. If he charges a very high price, he can sell a small amount. If he wants to sell more, he has to charge a low price. He cannot sell as much as he wishes for any price he pleases.
6. **Downward Sloping Demand Curve:** The demand curve (average revenue curve) of

monopolist slopes downward from left to right. It means that he can sell more only by lowering price.

Types of cost and Revenue:-

Average cost:- The cost of producing one unit is known as average cost. It can be described as under.

$$\text{Average Cost} = \frac{\text{Total cost}}{\text{No. of Units Produced}}$$

For eg:- Cost of producing 10 articles is Rs. 100/-(T.C)
Then the average cost will be 10 Rs/-
AC=100/10=10

Significance: The concept of average cost is useful in the determination of profit or loss. If Average Revenue exceeds the Average Cost it is an indication of Profit. Average Cost exceeds then Average Revenue it is an indication of loss.

Marginal Cost: Increase in total cost when one more unit is produced known as marginal cost. It is also known as variable cost.
For example the cost of producing 10 articles is Rs.150 (T.C) if eleventh, article is produce the stall cost will be 165 Rs. The marginal cost is Rs.15/-(165-150).

Significance: The concept of marginal cost is useful in the determination of equilibrium production. At this position die producer will get maximum possible profits. When 'MC' is less than 'MR' the producer will try to increase the production of reach the maximum profitability position.

Average Revenue: The amount collected for one article when it is sold in the market is known as average revenue. This is also known as market price. It can also defined as

$$\text{Average Revenue} = \frac{\text{Total revenue}}{\text{No of units sold}}$$

For example when 10 articles are sold at Rs.150 (T.R) The average revenue=150/10=15/-

Significance: The concept of average revenue is useful in the determination of profit or loss. When AR is greater than AC. It is an indication of profit. Similarly when AC is greater than AR. It is an indication of loss.

Marginal Revenue: Increase in total revenue when 1 more unit is sold in the market is known as marginal revenue.
For eg. Article is sold the TR becomes Rs. 162/-
The marginal revenue Rs 12/- (Rs 162-150)

Significance: The concept of MR is useful in the determination of equilibrium production of a firm. When MC> MR the produces, Suffers a lot the produces tries to increase the production to reach the max. profitability position.

PRICE OUTPUT DETERMINATION IN MONOPOLY

Monopolist has control over the supply of a commodity. He has also the power to influence the market price. He can raise the price by reducing his output and hence lower the price by increasing his output. Thus, he is the price-maker. He can fix the price to has best advantage. Under monopoly the average revenue curve for a firm is a downward sloping one. It is because, of the monopolist reduces the price of his product, the quantity demanded increase and vice versa. In monopoly, marginal revenue is less than the average revenue.

The monopolist always wants to maximize his profits. To achieve maximum profits, it is necessary that the marginal revenue should be more than the marginal cost.

Equilibrium:-

The monopolist makes maximum profits when MC=MR. He goes on decreasing his output if his revenue exceeds the cost. But when costs exceed revenue, the monopoly firm increases losses.

Hence, the monopolist curtails his production.

Monopolist produces up to the point where marginal cost is equal to the Marginal revenue (MC=MR) That point is called "Equilibrium point".

Conditions should be satisfied

1. MR=MC
2. MC cuts MR from below

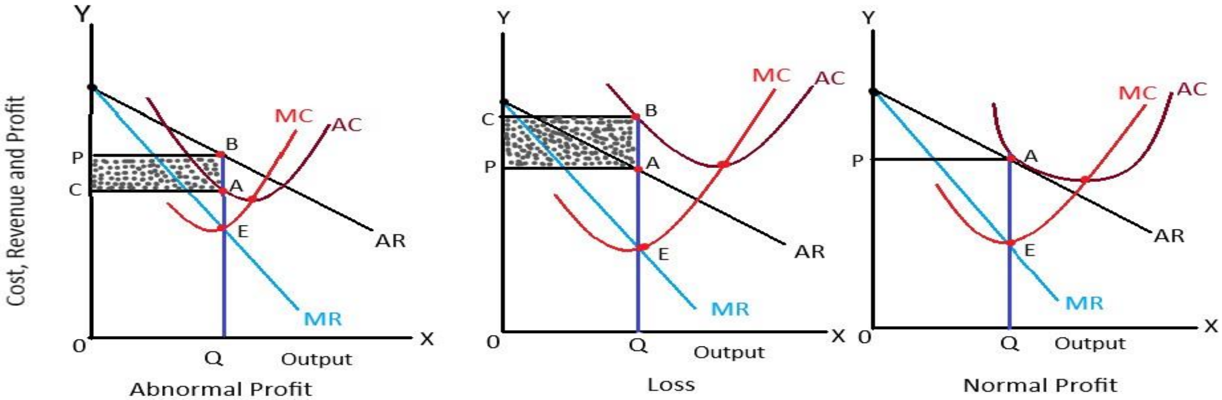
Short period equilibrium

Short-run refers to that period in which a monopolist cannot change the fixed factors. However, the monopolist is free in determining price due to lack of competition. A monopolist has control over the market supply. So, he/ she is the price maker. His/ her price and output determination is motivated by profit as well as sales maximization. Therefore, he/ she will adjust the output in such a way that the marginal cost and marginal revenue are equal.

In short run equilibrium whether the firm makes an abnormal profit, normal profit or loss, it depends on the level of AC and AR which can be shown as follows:-

1. If AR> AC, the firm receives abnormal profit.
2. If AR< AC, the firm bears the loss.
3. If AR=AC, the firm receives a normal profit.

The following conditions must be fulfilled in order to attain equilibrium under monopoly:-



In the above figures, the three different possibilities of profit and loss situation in the short run under monopoly firm are shown. These possibilities are explained as follows:-

1. Abnormal profit:-

In the first figure, we see that the equilibrium point is 'E' when MC cuts MR from below. The equilibrium level of output is determined at OQ. The level of revenue earned is OP and the cost incurred is OC. Since Revenue is greater than cost, the firm earns abnormal profit equal to the shaded area (ABPC).

2. Loss:-

In the second figure, point E is the equilibrium point where MC intersects MR from below. The equilibrium level of output is OQ. The cost incurred is OC and the revenue earned is OP. Since cost is higher than revenue, the firm bears loss equal to the shaded area (ABCP).

3. Normal profit:-

In the third figure, we can see that the equilibrium point is at 'E' where the conditions for equilibrium are fulfilled. The equilibrium level of output is OQ. The revenue and cost are at the same level (OP). The firm earns just a normal profit to sustain its business in this case.

Price and Output Determination Under Monopoly in the Long-run/Long-run Equilibrium:

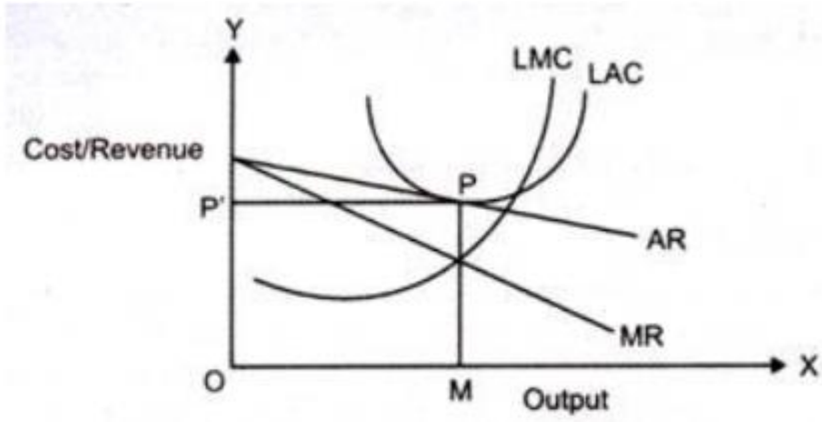
In the long period there cannot be abnormal profit or losses. The firm will be making normal profits only. Under monopolistic competition, new firms can enter or the existing firms can leave the industry. That means, if there are abnormal profits, new firms can enter into the field, on the other hand, if there are losses the old firms can leave the industry.

Thus, in the long period, 'AC' will be equal to 'AR' and the firms earn normal profits only. This can be shown in the following diagram.

The long-run equilibrium of the firm requires the completion of the following conditions.

- MR=LMC
- LMC curve must intersect MR curve from below.

The equilibrium of the monopolistic competitive firm, in the long run, can be explained with help of the following graph.



P is the point at which AR curve touches the average cost curve (LAC) as a tangent. P is regarded as the equilibrium point at which the price level is MP (which is also equal to OF) and output is OM.

In the present case average cost is equal to average revenue that is MP. Therefore, in long run, the profit is normal. In the short run, equilibrium is attained when marginal revenue is equal to marginal cost. However, in the long run, both the conditions (MR=MC and AR=AC) must hold to attain equilibrium.

MONOPOLISTIC COMPETITION:

Monopolistic competition is said to exist when there are many firms and each one produces such goods and services that are close substitutes to each other. They are similar but not identical. Product differentiation is the essential feature of monopolistic. Products can be differentiated by means of unique facilities, advertising, brand loyalty, packaging, pricing, terms of credit, superior maintenance services, and convenient location and so on.

DEFINITION:

"There is competition which is keen through not perfect between many firms making very similar products."

FEATURES OF MONOPOLISTIC

1. **Existence of Many firms:** Industry consists of a large number of sellers, each one of whom does not feel dependent upon others. Every firm acts independently without bothering about the reactions of its rivals. The size is so large that an individual firm has only a relatively small part in the total market, so that each firm has very limited control over the price of the product. As the number is relatively large it is difficult for these firms to determine its price- output policies without considering the possible reactions of the rival forms. A monopolistically competitive firm follows an independent price policy.
2. **Product Differentiation:** Product differentiation means that products are different in some ways, but not altogether so. The products are not identical but the same time they will not be entirely different from each other. IT really means that there are various monopolist firms competing with each other. An example of monopolistic competition and product differentiation is the toothpaste produced by various firms. The product of each firm is different from that of its rivals in one or more respects. Different toothpastes like Colgate, Close-up, Forehans, Cibaca, etc., provide an example of monopolistic competition. These products are

relatively close substitute for each other but not perfect substitutes. Consumers have definite preferences for the particular verities or brands of products offered for sale by various sellers. Advertisement, packing, trademarks, brand names etc. help differentiation of products even if they are physically identical.

3. **Large Number of Buyers:** There are large number buyers in the market. But the buyers have their own brand preferences. So the sellers are able to exercise a certain degree of monopoly over them. Each seller has to plan various incentive schemes to retain the customers who patronize his products.
4. **Free Entry and Exist of Firms:** As in the perfect competition, in the monopolistic competition too, there is freedom of entry and exit. That is, there is no barrier as found under monopoly.
5. **Selling costs:** Since the products are close substitute much effort is needed to retain the existing consumers and to create new demand. So each firm has to spend a lot on selling cost, which includes cost on advertising and other sale promotion activities.
6. **Imperfect Knowledge:** Imperfect knowledge about the product leads to monopolistic competition. If the buyers are fully aware of the quality of the product they cannot be influenced much by advertisement or other sales promotion techniques. But in the business world we can see that thought the quality of certain products is the same, effective advertisement and sales promotion techniques make certain brands monopolistic. For examples, effective dealer service backed by advertisement-helped popularization of some brands through the quality of almost all the cement available in the market remains the same.
7. **Patent rights and Trademarks:** There are also patent rights and trademarks which promotes product differentiation. For Example, Kodak and Coco-cola are patent rights which have been quoted by us congress to their investors, trade names like Hamam, Lux, Rexona etc.,

Price and Output Determination Under Monopolistic Competition:

Price and output Determination under Monopolistic Competition divided into Short period and long Period Equilibrium.

Short period equilibrium

Short-run refers to that period in which a monopolist cannot change the fixed factors. However, the monopolist is free in determining price due to lack of competition. A monopolist has control over the market supply. So, he/ she is the price maker. His/ her price and output determination is motivated by profit as well as sales maximization. Therefore, he/ she will adjust the output in such a way that the marginal cost and marginal revenue are equal.

In short run equilibrium whether the firm makes an abnormal profit, normal profit or loss, it depends on the level of AC and AR which can be shown as follows:-

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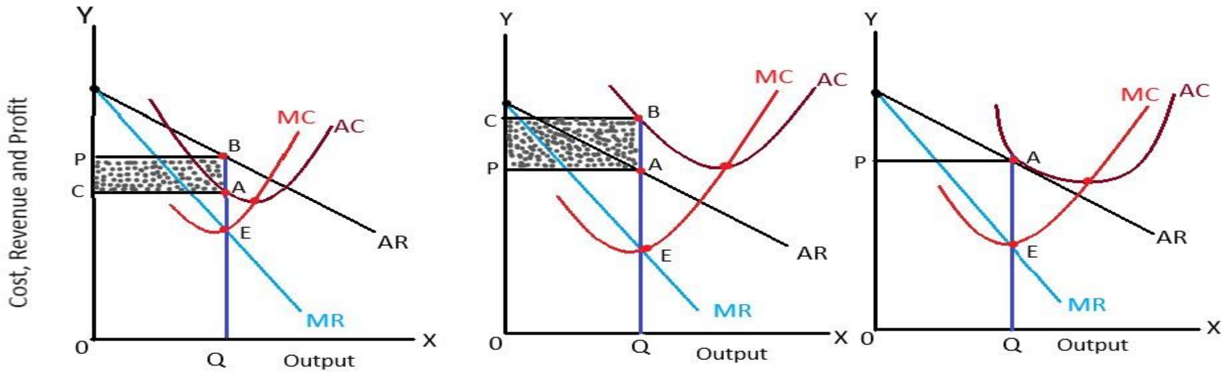

Abnormal Profit | Loss | Normal Profit

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Price and Output Determination Under Monopolistic Competition in the Long-run/Long-run Equilibrium:

In the long period there cannot be abnormal profit or losses. The firm will be making normal profits only. Under monopolistic competition, new firms can enter or the existing firms can leave the industry. That means, if there are abnormal profits, new firms can enter into the field, on the other hand, if there are losses the old firms can leave the industry.

Thus, in the long period, 'AC' will be equal to 'AR' and the firms earn normal profits only. This can be shown in the following diagram.

The long-run equilibrium of the firm requires the completion of the following conditions.

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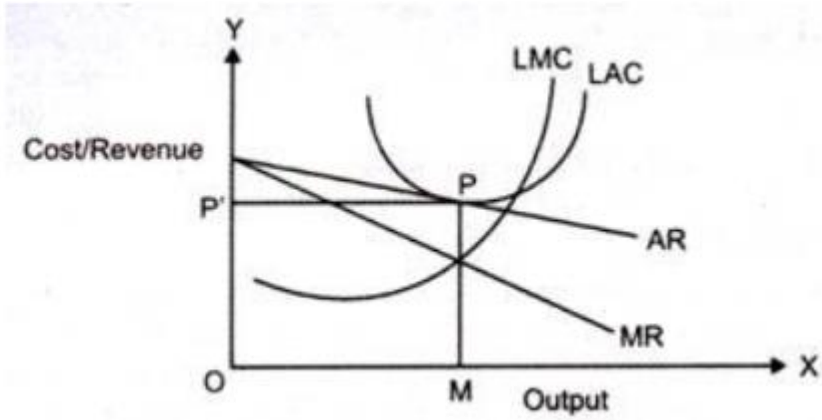

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In the present case average cost is equal to average revenue that is MP. Therefore, in long run, the profit is normal. In the short run, equilibrium is attained when marginal revenue is equal to marginal cost. However, in the long run, both the conditions (MR=MC and AR=AC) must hold to attain equilibrium.

Conclusion:- From the above information, we cannot say definitely, that in the long period all firms will earn normal profits only. The old and experience firms may be earning, abnormal profits even in the long run. Therefore, in all firms normal profit position may not definitely take place.

OLIGOPOLY:

The term oligopoly is derived from 'oligi', meaning few and 'polein', meaning to sell. A market situation where the number of big sellers of a commodity is less and the number of buyers is more is known as **Oligopoly Market.** The sellers in the oligopoly market sell differentiated or homogeneous products. As the number of sellers in this market is less, the price and output decision of one seller impacts the price and output decision of other sellers in the market. In other words, the interdependence among the sellers of a commodity is high. **For example,** luxury car producers like BMW, Audi, Ford, etc., come under Oligopoly Market, as the number of sellers of luxury cars is less and its buyers are more. Sometimes, there are few sellers in the oligopoly market, and every seller gets influenced by other sellers and influences them too, which is also known as '**competition among the few'.**

FEATURES OF OLIGOPOLY

1. Few Firms: There are few firms under an oligopoly market whose number is not exactly defined. But, each of the firms under this market produces a significant part of the total output. Each of the firms in the oligopoly market competes with each other severely and tries to manipulate their product's price and volume to outsmart each other. Also, the number of firms in the market is so small that the action of one firm affects the rival firms. Therefore, every firm keeps an eye on the actions/activities of other rival firms.
For example, the automobile industry in India comes under Oligopoly Market.

2. Non-Price Competition: The firms under an oligopoly market can influence the price of the product; however, they try to avoid such influence as it can start a price war, which none of the firms wants. In other words, if one firm tries to reduce the price of their product, then the other firms will also have to reduce the price, and vice-versa because of which the firm can lose its customers, ultimately intended to

increase the price. Therefore, these firms follow the policy of price rigidity, and hence prefer non-price competition. So, to compete with each other, the firms use different methods other than pricing, such as after-sales services, advertising, etc.
Price rigidity is a situation in which the price of the product tends to stay the same or fixed irrespective of the changes in supply and demand of those products.

3. Interdependence: The firms under an oligopoly market are interdependent, which means that the actions of one firm affect the actions of other firms. Every firm in this market considers the actions and reactions of their rival firms before deciding the price and output level of their products. A change in the price or output of one firm changes the reaction of other firms operating in the same market.
For example, if Maruti makes any change in the price of its cars, then its rival firms such as Tata, Hyundai, etc., will also have to make respective changes in their activities.

4. Barriers to Entry of Firms: There are only a few firms under oligopoly because of the barriers to the entry of the new firms in this market. The new firms prevent themselves from entering into the oligopoly market because of the large capital requirement, patents requirement, and many other factors. Therefore, the new firms, which can cross these barriers enter the market, which results in earning abnormal profits in the long run.

5. Role of Selling Costs: Selling cost is the cost spent on the advertisement, sales promotion, and marketing of the product. As there is severe competition and interdependence among the firms, they take help of selling costs to sell their product in the market. Therefore, the firms under oligopoly market focus more on their advertisements and other sales promotion techniques. The role of selling costs in the sale of products is more than its role in a monopolistic competition market.

6. Nature of the Product: The firms under oligopoly market may produce differentiated or homogeneous products. The firms producing homogeneous products are known as pure oligopolies. Whereas the firms producing heterogeneous products are known as imperfect oligopolies.

7. Group Behavior: The firms under oligopoly market are completely interdependent on each other; therefore, any change in the price and output of one firm influences the other competing firms. Therefore, to avoid price wars, these firms prefer to decide the price of their product by making a group decision so that it can benefit all of these firms.
Group behavior here means that the firms in this market behave like they are one single firm even though they retain their interdependence on an individual basis.

8. Intermediate Demand Curve: One cannot determine the behaviour pattern of a producer under an oligopoly market with certainty. Therefore, the demand curve of the firms under an oligopoly market is intermediate or uncertain. As the firms in this market are interdependent, an action of one firm severely influences the action of other rival firms. Therefore, the demand curve of an oligopoly market keeps on changing or shifting and is not definite.

Difference Between Perfect Competition, Monopoly, Monopolistic Competition and Oligopoly:

Basis	Perfect Competition	Monopoly	Monopolistic Competition	Oligopoly

Basis	Perfect Competition	Monopoly	Monopolistic Competition	Oligopoly
Meaning	It is a market situation where a large number of buyers and sellers deal in a homogeneous product at a fixed price set by the market.	It is a market situation where there is only one seller in the market selling a product with no close substitutes.	It is a market situation in which there is a large number of firms selling closely related products that can be differentiated.	It is a market situation where the number of big sellers of a commodity is less and the number of buyers is more.
Number of Sellers	This market has very large number of sellers.	This market has a single seller.	This market has a large number of sellers.	This market has big sellers.
Number of Product	This market has homogeneous products.	There are no close substitutes in this market.	This market has closely related but differentiated products.	This market has homogeneous or differentiated products.
Entry and Exit of Firms	There is freedom of entry and exit in this market.	There is a restriction on the entry of new firms and exit of old firms.	There is freedom of entry and exit in this market.	There is a barrier on the entry of new firms into the market.
Demand Curve	This market has a perfectly elastic demand curve.	This market is less elastic and has a downward-sloping demand curve.	This market is more elastic but has a downward-sloping demand curve.	The demand curve of an oligopoly market is uncertain as one cannot determine the exact behaviour pattern of a producer.

Basis	Perfect Competition	Monopoly	Monopolistic Competition	Oligopoly
Price	As each of the firms in this market is a price-taker, the price is uniform.	As the firms in this market are price-maker, there is a possibility of price discrimination.	The firms have partial control over the price because of product differentiation.	There is price rigidity in this market as the firms can influence it.
Selling Costs	In this market, no selling costs are incurred.	In this market, only informative selling costs are incurred.	In this market, high selling costs are spent.	In this market, huge selling cost is spent as it relies more on non-price competition.
Level of Knowledge	Perfect Knowledge	Imperfect Knowledge	Imperfect Knowledge	Perfect Knowledge

PRICING METHODS

COST – BASED PRICING METHODS

1. **Cost plus pricing:** This is also called full cost or mark up pricing. Here the average cost normal capacity of output is ascertained and then a conventional margin of profit is added to the cost to arrive at the price. In other words, find out the product unit‟s total cost and add percentage of profit to arrive at the selling price.

   This method is suitable where the cost keep fluctuating from time to time. It is commonly followed in departmental stores and other retail shops. This method is simple to be administered but it does not consider the competition factor. The competitor may produce the same product at lower cost and thus offer it at a lower price.

2. **Marginal cost pricing** : in marginal cost pricing, selling price is fixed in such a way thatit covers fully the variable or marginal cost and contributes towards recovery of fixedcosts fully or partly, depending upon the market situations. In times of stiff competition,marginal cost offers a guideline as to how far the selling price can be lowered. This is also called break – even pricing or target profit pricing. How break – even analysis helpsin taking pricing decisions.

COMPETITION – ORIENTED PRICING:

Some commodities are priced according to the competition in their markets. Thus we have the going rate method of price and the sealed bid pricing technique. Under the former a firm prices its new product according to the prevailing prices of comparable products in the market.

a. **Sealed bid pricing:** this method is more popular in tenders and contracts. Each contracting firm quotes its price in a sealed cover called tender. All the tenders are opened on a scheduled date and the person who quotes the lowest prices, other things remaining the same, is awarded the contract.

b. **Going rate pricing:** here the price charged by the firm is in tune with the price charged in the industry as a whole. In other words, the prevailing market price at a given point of time is the guiding factor. When one wants to buy or sell gold, the prevailing market rate at a given point of time is taken as the basis to determine the price, normally the market leaders keep announcing the prevailing prices at a given point of time based on demand and supply positions.

DEMAND – ORIENTED PRICING

The higher the demand, the higher can be the price. Cost is not the consideration here. The key to pricing here is the value as perceived by the consumer. This is a relatively modern marketing concept.

a. **Price discrimination**: price discrimination refer to the practice of charging different prices to customers for the same good. The firm uses its discretion to charge differently the different customer. It is also called differential pricing. Customers of different profile can be separated in various ways, such as by different consumer requirement by nature of product itself , by geographical areas, by income group and so on.
b. **Dumping:** Dumping is, in general, a situation of international price discrimination, where the price of a product when sold in the importing country is less than the price of that product in the market of the exporting country.
c. **Perceived value pricing**: perceived value pricing refers to where the price is fixed on the basis of the perception of the buyer of the value of the product.
d. **Psychological pricing:** Psychological pricing is a pricing strategy that impacts the consumer's subconscious mind, including pricing the goods and services slightly lower than a whole number. For instance, in the retail store, let's say a commodity's price is $99 instead of $100. Although the price is slightly lower, for the consumer, it is in two digits and not three. Therefore, it will be more attractive to consumers if $99 is charged for the given commodity, not $100.

STRATEGY – BASED PRICING:

1. **Price Skimming**: when the product is introduced for the first time in the market, the company follows this method. Under this method, the company fixes a very high price for the product. The main idea is to charge the customer maximum possible. For example Sony introduces a particular TV model , it fixed a very high price and other company.
2. **Price Penetration**: This is exactly opposite to the market skimming method. Here the price of the product is fixed so low that the company can increase its market share. the company attains profits with increasing volumes and increase in the market share. More often , the companies believe that it is necessary to dominate the market in the long –run making profit in the short-

run.

3. **Two – part pricing**: the firms with market power can enhance profits by the strategy oftwo – part pricing. Under this strategy, a firm charges a fixed fee for the right topurchase its goods, plus a per unit charge for each unit purchased. Entertainment houses such as country clubs, athletic clubs, golf courses, health clubs usually adopt this strategy. They charge a fixed initiation fee plus a charge, per month or per visit, to use the facilities.
4. **Block pricing**: block pricing is another way a firm with market power can enhance its profits. We see block pricing in out day – to – day life very frequently. Six lux soaps in asingle pack or four maggi noodles in a single pack.
5. **Commodity bundling**: commodity bundling refers to the practice of bundling two or more different products together and selling them at a single bundle price, the package deals offered by the tourist companies, airlines hold testimony to this practice. The package includes the airfare, hotel, meals, sightseeing and so on.
6. **Peak load pricing:** during seasonal period when demand is likely to be higher, a firm may enhance profits by peak load pricing. The firm philosophy is to charge a higher price during peak times than is charged during off – peak times. Apsrtc, air india, jet air etc.

PRICING STRATEGIES IN TIMES OF STIFF PRICE COMPETITION

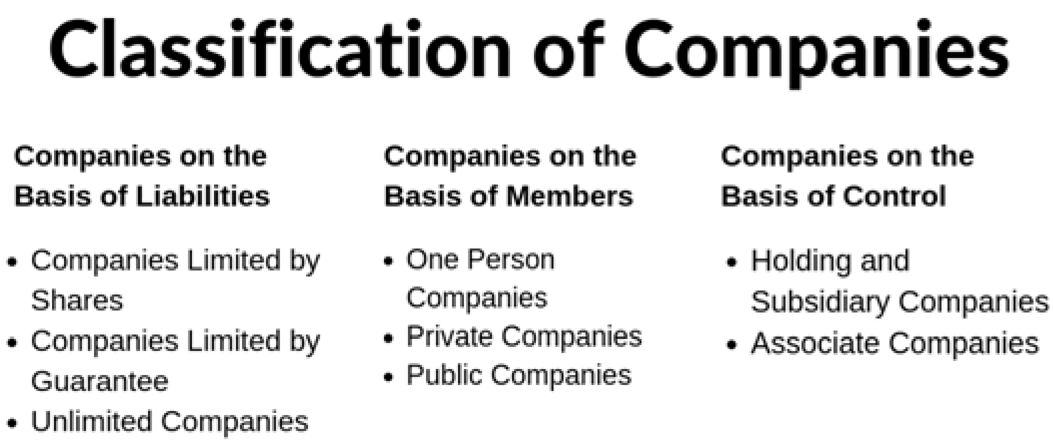
1. **Pricing matching**: Price matching is a strategy used by retailers in order to provide the best price for customers in a certain competitive market, by offering the same product for a lower price to increase sales, catch customers' attention and strengthen customer loyalty.
2. **Promoting brand loyalty**: this is an advertising strategy where the customers are frequently reminded by the brand value of given product or services. The convictionhere is that the customers, once they are loyal to the given branded product or services, will not slip away when the competitors come out with products at lower prices.
3. **Time – to – time**: this is also called randomized pricing strategy where the firm varies its prices form time- to – time, say hour – to – time, say hour – to – hour or day – to – day. This methods offers two advantages , the rival firms can no more play with price cuts. Also customers cannot learn form experience which firm charges the lowers pricein the market.
4. **Target pricing**: Target costing, or target pricing strategy, is a pricing strategy that involves setting a price for a product or service based on the costs associated with making it and the desired profit margin. In target costing, all things are planned around a specific price point.

COMPANY

A company is essentially an artificial person—also known as corporate personhood—in that it is an entity separate from the individuals who own, manage, and support its operations. Companies are generally organized to earn a profit from business activities, but some may be structured as nonprofit charities. Each country has its own hierarchy of company and corporate structures but with many similarities.

A company has many of the same legal rights and responsibilities as a person does, like the ability to enter into contracts, the right to sue (or be sued), borrow money, pay taxes, own assets, and hire employees.

Company forms of businesses have become immensely popular over the years. Their development has led to the creation of so many new types of companies. Companies are to be classified on the basis of liabilities, members and on the basis of control.



Companies on the Basis of Liabilities

When we look at the liabilities of members, companies can be limited by shares, limited by guarantee or simply unlimited.

a) Companies Limited by Shares

Sometimes, shareholders of some companies might not pay the entire value of their shares in one go. In these companies, the liabilities of members is limited to the extent of the amount not paid by them on their shares.

This means that in case of winding up, members will be liable only until they pay the remaining amount of their shares.

b) Companies Limited by Guarantee

In some companies, the memorandum of association mentions amounts of money that some members guarantee to pay.

In case of winding up, they will be liable only to pay only the amount so guaranteed. The company or its creditors cannot compel them to pay any more money.

c) Unlimited Companies

Unlimited companies have no limits on their members' liabilities. Hence, the company can use all personal assets of shareholders to meet its debts while winding up. Their liabilities will extend to the company's entire debt.

Companies on the basis of members

a) One Person Companies (OPC)

These kinds of companies have only one member as their sole shareholder. They are separate from sole proprietorships because OPCs are legal entities distinct from their sole members. Unlike other companies, OPCs don't need to have any minimum share capital.

b) Private Companies

Private companies are those whose articles of association restrict free transferability of shares. In terms of members, private companies need to have a minimum of 2 and a maximum of 200. These members include present and former employees who also hold shares.

c) Public Companies

In contrast to private companies, public companies allow their members to freely transfer their shares to others. Secondly, they need to have a minimum of 7 members, but the maximum number of members they can have is unlimited.

Companies on the basis of Control (or) Holding

In terms of control, there are two types of companies.

a) Holding and Subsidiary Companies

In some cases, a company's shares might be held fully or partly by another company. Here, the company owning these shares becomes the holding or parent company. Likewise, the company whose shares the parent company owns becomes its subsidiary company.

Holding companies exercise control over their subsidiaries by dictating the composition of their board of directors. Furthermore, parent companies also exercise control by owning more than 50% of their subsidiary companies' shares.

b) Associate Companies

Associate companies are those in which other companies have significant influence. This "significant influence" amounts to ownership of at least 20% -50% shares of the associate company. An associate company is a firm owned in part by a parent company. Unlike a subsidiary company, the parent will only own a minority or non-controlling stake in the associate company. Associate company relationships often occur with joint ventures.

Other Types of Companies

a) Government Companies

Government companies are those in which more than 50% of share capital is held by either the central government, or by one or more state government, or jointly by the central government and one or more state government.

b) Foreign Companies

Foreign companies are incorporated outside India. They also conduct business in India using a place of business either by themselves or with some other company.

c) Charitable Companies (Section 8)

Certain companies have charitable purposes as their objectives. These companies are called Section 8 companies because they are registered under Section 8 of Companies Act, 2013.

Charitable companies have the promotion of arts, science, culture, religion, education, sports, trade, commerce, etc. as their objectives. Since they do not earn profits, they also do not pay any dividend to their members.

d) Public Financial Institutions

Life Insurance Corporation, Unit Trust of India and other such companies are treated as public financial institutions. They are essentially government companies that conduct functions of public financing.

BUSINESS ORGANISATION

A business organisation is an establishment intended to carry commercial business by producing goods or services and meet the customers' needs. Most of the organisations have a standard such as social structure, purpose goals, utilisation of resources, rules and regulations, etc.

The state law regulates the establishment of the business, and IRS law controls the tax incurred for business. So, how much tax business should pay depends on what form of business one owns.

Forms of Business Organisations

1. Sole Proprietorship
2. Partnership
3. Joint Stock Company
4. Enterprise
   i) Private Sector Enterprise
   ii) Public Sector Enterprise

1. SOLE PROPRIETORSHIP

The sole trader is the simplest, oldest and natural form of business organization. It is alsocalled 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, skill and intelligence. He is the boss for himself. He has total operational freedom. He is the owner, Manager and controller. He has total freedom and flexibility. Full control lies with him. He can take his own decisions. He can choose or drop a particular product or business based on its merits. He need not discuss this with anybody. He is responsible for himself. This form of organization is popular all over the world. Restaurants, Supermarkets, pan shops, medical shops, hosiery shops etc.

FEATURES OF SOLE PROPRIETORSHIP

a. It is easy to start a business under this form and also easy to close.
b. He introduces his own capital. Sometimes, he may borrow, if necessary
   He enjoys all the profits and in case of loss, he lone suffers.
c. He has unlimited liability which implies that his liability extends to his personal properties in case of loss.
d. He has a high degree of flexibility to shift from one business to the other.
   Business secretes can be guarded well
e. There is no continuity. The business comes to a close with the death, illness or insanityof the sole trader.
f. He has total operational freedom. He is the owner, manager and controllerHe can be directly in touch with the customers.
g. He can take decisions very fast and implement them promptly.
h. Rates of tax, for example, income tax and so on are comparatively very low

ADVANTAGES OF SOLE PROPRIETORSHIP

1. **Easy to start and easy to close**: Formation of a sole trader from of organization is relatively easy even closing the business is easy.
2. **Personal contact with customers directly:** Based on the tastes and preferences of the customers the stocks can be maintained.
3. **Prompt decision-making:** To improve the quality of services to the customers, he can take any decision and implement the same promptly. He is the boss and he is responsible for his business Decisions relating to growth or expansion can be made promptly.
4. **High degree of flexibility:** Based on the profitability, the trader can decide to continue or change the business, if need be.
5. **Secrecy:** Business secrets can well be maintained because there is only one trader.
6. **Low rate of taxation:** The rate of income tax for sole traders is relatively very low.
7. **Direct motivation:** If there are profits, all the profits belong to the trader himself. In other words. If he works more hard, he will get more profits. This is the direct motivating factor. At the same time, if he does not take active interest, he may stand to lose badly also.
8. **Total Control:** The ownership, management and control are in the hands of the soletrader and hence it is easy to maintain the hold on business.
9. **Minimum interference from government:** Except in matters relating to public interest, government does not interfere in the business matters of the sole trader. The sole traderis free to fix price for his products/services if he enjoys monopoly market.
10. **Transferability:** The legal heirs of the sole trader may take the possession of the business.

DISADVANTAGES OF THE SOLE PROPRIETOR

1. **Unlimited liability:** The liability of the sole trader is unlimited. It means that the sole trader has to bring his personal property to clear off the loans of his business. From the legal point of view, he is not different from his business.
2. **Limited amounts of capital:** The resources a sole trader can mobilize cannot be verylarge and hence this naturally sets a limit for the scale of operations.
3. **No division of labour:** All the work related to different functions such as marketing, production, finance, labour and so on has to be taken care of by the sole trader himself. There is nobody else to take his burden. Family members and relatives cannot show as much interest as the trader takes.
4. **Uncertainty:** There is no continuity in the duration of the business. On the death, insanity of insolvency the business may be come to an end.
5. **Inadequate for growth and expansion:** This from is suitable for only small size, one- man-show type of organizations. This may not really work out for growing and expanding organizations.
6. **Lack of specialization:** The services of specialists such as accountants, market researchers, consultants and so on, are not within the reach of most of the sole traders.
7. **More competition:** Because it is easy to set up a small business, there is a high degreeof competition among the small businessmen and a few who are good in taking care of customer requirements along can service.
8. **Low bargaining power:** The sole trader is the in the receiving end in terms of loans or supply of raw materials. He may have to compromise many times regarding the terms and conditions of purchase of materials or borrowing loans from the finance houses or banks.

2. PARTNERSHIP

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 theprofits/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 a partnership.

Indian Partnership Act, 1932 defines partnership as the relationship between two ormore persons who agree to share the profits of the business carried on by all or any one of them acting for all.

FEATURES OF PARTNERSHIP

1. **Relationship:** Partnership is a relationship among persons. It is relationship resultingout of an agreement.
2. **Two or more persons:** There should be two or more number of persons.
3. **There should be a business**: Business should be conducted.
4. **Agreement:** Persons should agree to share the profits/losses of the business
5. **Carried on by all or any one of them acting for all:** The business can be carried on by all or any one of the persons acting for all. This means that the business can be carriedon by one person who is the agent for all other persons. Every partner is both an agent and a principal. Agent for other partners and principal for himself. All the partners are agents and the

"partnership" is their principal.

6. **Unlimited liability:** The liability of the partners is unlimited. The partnership and partners, in the eye of law, and not different but one and the same. Hence, the partners have to bring their personal assets to clear the losses of the firm, if any.
7. **Number of partners:** According to the Indian Partnership Act, the minimum number of partners should be two and the maximum number if restricted, as given below:
   10 partners is case of banking business 20 in
   case of other business
8. **Division of labour:** Because there are more than two persons, the work can be divided among the partners based on their aptitude.
9. **Personal contact with customers:** The partners can continuously be in touch with the customers to monitor their requirements.
10. **Flexibility:** All the partners are likeminded persons and hence they can take any decision relating to business.

PARTNERSHIP DEED

The written agreement among the partners is called "The Partnership Deed". It contains the terms and conditions governing the working of partnership. The following are contents of the partnership deed.

1. Names and addresses of the firm and partners
2. Nature of the business proposed
3. Duration
4. Amount of capital of the partnership and the ratio for contribution by each of the partners.
5. Their profit sharing ration (this is used for sharing losses also)
6. Rate of interest charged on capital contributed, loans taken from the partnership and the amounts drawn, if any, by the partners from their respective capital balances.
7. The amount of salary or commission payable to any partner
8. Procedure to value goodwill of the firm at the time of admission of a new partner, retirement of death of a partner
9. Allocation of responsibilities of the partners in the firm
10. Procedure for dissolution of the firm
11. Name of the arbitrator to whom the disputes, if any, can be referred to for settlement.
12. Special rights, obligations and liabilities of partners(s), if any.

KIND OF PARTNERS

1. **Active Partner:** An active partner is an invested person who is involved in the daily operations of the partnership. An active partner helps run the business to enhance his or her returns and is therefore considered a material participant. He isalso called working partner.
2. **Sleeping Partner:** Sleeping partner contributes to capital but does not take part in the affairs of the partnership.
3. **Nominal Partner:** Nominal partner is partner just for namesake. He neither contributes to capital nor takes part in the affairs of business. Normally, the nominal partners are those who have good business connections, and are well places in the society.

4. **Partner by Estoppels:** Estoppels means behavior or conduct. Partner by estoppels gives an impression to outsiders that he is the partner in the firm. In fact be neither contributes to capital, nor takes any role in the affairs of the partnership.
5. **Partner by holding out:** If partners declare a particular person (having social status) as partner and this person does not contradict even after he comes to know such declaration, he is called a partner by holding out and he is liable for the claims of third parties. However, the third parties should prove they entered into contract with the firm in the belief that he is the partner of the firm. Such a person is called partner by holding out.
6. **Minor Partner:** Minor has a special status in the partnership. A minor can be admitted for the benefits of the firm. A minor is entitled to his share of profits of the firm. The liability of a minor partner is limited to the extent of his contribution of the capital of the firm.

ADVANTAGES OF PARTNERSHIP:

1. **Easy to form:** Once there is a group of like-minded persons and good business proposal, it is easy to start and register a partnership.
2. **Availability of larger amount of capital:** More amount of capital can be raised from more number of partners.
3. **Division of labour:** The different partners come with varied backgrounds and skills. This facilities division of labour.
4. **Flexibility:** The partners are free to change their decisions, add or drop a particular product or start a new business or close the present one and so on.
5. **Personal contact with customers**: There is scope to keep close monitoring with customers requirements by keeping one of the partners in charge of sales and marketing. Necessary changes can be initiated based on the merits of the proposals from the customers.
6. **Quick decisions and prompt action:** If there is consensus among partners, it is enough to implement any decision and initiate prompt action. Sometimes, it may more time for the partners on strategic issues to reach consensus.
7. **The positive impact of unlimited liability:** Every partner is always alert about his impending danger of unlimited liability. Hence he tries to do his best to bring profits for the partnership firm by making good use of all his contacts.

DISADVANTAGES OF PARTNERSHIP:

1. **Formation of partnership is difficult:** Only like-minded persons can start a partnership. It is sarcastically said,‟ it is easy to find a life partner, but not a business partner‟.
2. **Liability:** The partners have joint and several liabilities beside unlimited liability. Joint and several liability puts additional burden on the partners, which means that even the personal properties of the partner or partners can be attached. Even when all but one partner become insolvent, the solvent partner has to bear the entire burden of business loss.
3. **Lack of harmony or cohesiveness:** It is likely that partners may not, most often work as a group with cohesiveness. This result in mutual conflicts, an attitude of suspicion and crisis of confidence. Lack of harmony results in delay in decisions and paralyses the entire operations.
4. **Limited growth:** The resources when compared to sole trader, a partnership may raise little more. But when compare to the other forms such as a company, resources raised in this form of

organization are limited. Added to this, there is a restriction on the maximum number of partners.

5. **Instability:** The partnership form is known for its instability. The firm may be dissolved on death, insolvency or insanity of any of the partners.
6. **Lack of Public confidence:** Public and even the financial institutions look at the unregistered firm with a suspicious eye. Though registration of the firm under the Indian Partnership Act is a solution of such problem, this cannot revive public confidence into this form of organization overnight. The partnership can create confidence in other only with their performance.

3. JOINT STOCK COMPANY

A joint stock company is an association joining together for carrying on business and having a separate legal entity. The persons joining the business contribute to the stock of the company are called share holders.

Definition:

A company is an association of many persons who contribute money or money's worth to a common stock and employs it in some trade or business, and who share the profit and loss arising therefrom." - **James Stephens**

FEATURES OF JOINT STOCK COMPANY

1. **Artificial person:** The Company has no form or shape. It is an artificial person created by law. It is intangible, invisible and existing only, in the eyes of law.
2. **Separate legal existence**: it has an independence existence, it separate from its members. It can acquire the assets. It can borrow for the company. It can sue other if they are in default in payment of dues, breach of contract with it, if any. Similarly, outsiders for any claim can sue it. A shareholder is not liable for the acts of the company. Similarly, the shareholders cannot bind the company by their acts.
3. **Voluntary association of persons**: The Company is an voluntary association of persons who want to carry on business for profit. To carry on business, they need capital. So they invest in the share capital of the company.
4. **Limited Liability**: The shareholders have limited liability i.e., liability limited to the face value of the shares held by him. In other words, the liability of a shareholder is restricted to the extent of his contribution to the share capital of the company. The shareholder need not pay anything, even in times of loss for the company, other than his contribution to the share capital.
5. **Capital is divided into shares**: The total capital is divided into a certain number of units. Each unit is called a share. The price of each share is priced so low that every investor would like to invest in the company. The companies promoted by promoters of good standing (i.e., known for their reputation in terms of reliability character and dynamism) are likely to attract huge resources.
6. **Transferability of shares**: In the company form of organization, the shares can be transferred from one person to the other. A shareholder of a public company can sell his holding of shares at his will. However, the shares of a private company cannot be transferred. A private company restricts the transferability of the shares.
7. **Common Seal**: As the company is an artificial person created by law has no physical form, it cannot sign its name on a paper; so, it has a common seal on which its name is engraved. The common seal should affix every document or contract; otherwise the company is not bound by

such a document or contract.

8. **Perpetual succession**: "Members may comes and members may go, but the company continues forever and ever" A. company has uninterrupted existence because of the right given to the shareholders to transfer the shares.

9. **Winding up**: Winding up refers to the putting an end to the company. Because law creates it, only law can put an end to it in special circumstances such as representation from creditors of financial institutions, or shareholders against the company that their interests are not safeguarded. The company is not affected by the death or insolvency of any of its members.
10. **The name of the company ends with limited**: it is necessary that the name of the company ends with limited (Ltd.) to give an indication to the outsiders that they are dealing with the company with limited liability and they should be careful about the liability aspect of their transactions with the company.

ADVANTAGES OF JOINT STOCK COMPANY

1. **Mobilization of larger resources:** A joint stock company provides opportunity for the investors to invest, even small sums, in the capital of large companies. The facilities rising of larger resources.
2. **Separate legal entity:** The Company has separate legal entity. It is registered under Indian Companies Act, 1956.
3. **Limited liability:** The shareholder has limited liability in respect of the shares held by him. In no case, does his liability exceed more than the face value of the shares allotted to him.
4. **Transferability of shares:** The shares can be transferred to others. However, the private company shares cannot be transferred.
5. **Liquidity of investments**: By providing the transferability of shares, shares can be converted into cash.
6. **Inculcates the habit of savings and investments**: Because the share face value is very low, this promotes the habit of saving among the common man and mobilizes the same towards investments in the company.
7. **Democracy in management**: the shareholders elect the directors in a democratic way in the general body meetings. The shareholders are free to make any proposals, question the practice of the management, suggest the possible remedial measures, as they perceive, The directors respond to the issue raised by the shareholders and have to justify their actions.
8. **Economics of large scale production**: Since the production is in the scale with large funds at
9. **Continued existence**: The Company has perpetual succession. It has no natural end. It continues forever and ever unless law put an end to it.
10. **Institutional confidence**: Financial Institutions prefer to deal with companies in view of their professionalism and financial strengths.
11. **Professional management**: With the larger funds at its disposal, the Board of Directors recruits competent and professional managers to handle the affairs of the company in a professional manner.
12. **Growth and Expansion**: With large resources and professional management, the company can earn good returns on its operations, build good amount of reserves and further consider the

proposals for growth and expansion.

DISADVANTAGES OF JOINT STOCK COMPANY

1. **Formation of company is a long drawn procedure**: Promoting a joint stock company involves a long drawn procedure. It is expensive and involves large number of legal formalities.
2. **High degree of government interference**: The government brings out a number ofrules and regulations governing the internal conduct of the operations of a company such as meetings, voting, audit and so on, and any violation of these rules results intostatutory lapses, punishable under the companies act.
3. **Inordinate delays in decision-making**: As the size of the organization grows, the number of levels in organization also increases in the name of specialization. The more the number of levels, the more is the delay in decision-making. Sometimes, so-called professionals do not respond to the urgencies as required. It promotes delay in administration, which is referred to „red tape and bureaucracy‟.
4. **Lack or initiative**: In most of the cases, the employees of the company at differentlevels show slack in their personal initiative with the result, the opportunities once missed do not recur and the company loses the revenue.
5. **Lack of responsibility and commitment**: In some cases, the managers at different levels are afraid to take risk and more worried about their jobs rather than the hugefunds invested in the capital of the company lose the revenue. Where managers do not show up willingness to take responsibility, they cannot be considered as committed. They willnot be able to handle the business risks.

4. ENTERPRISE:

Enterprise refers to a profit business started and run by an entrepreneur. And we will often say that people running such businesses are enterprising. The roots of the word lie in the French word entreprendre (from prendre), meaning ‘to undertake’, Entrepreneurs usually start an enterprise – with the associated risks – to make a profit, and for one of several reasons:

- **Problem-solving.** They see a particular issue that they feel they can solve.
- **Exploit ideas.** They have a new idea or product they believe will be successful.
- **Filling a gap.** They see a gap in the market they believe they can fill.
- **Competitive pricing.** They believe they can produce something on the market cheaper and offer it at a lower price.
- **Knowledge-based.** Where they believe they can supply specialist knowledge that customers will pay for.

Enterprises can either be public or private. It is significant to understand the difference between the two because the privacy rights of a consumer differ in both sectors. The main difference between both the enterprises is that shares of public sector companies are traded on the stock exchange while shares of private sector enterprises are not. There are several differences between both terms. In this article, we will learn the difference between the public sector and private sector enterprises.

What is a Private-Sector Enterprise?

Private sector enterprises refer to a segment of a national economy. These are owned and controlled by a private group of individuals or even a single entity. This sector comprises countless companies that are divided based on their size and functional capabilities. It includes small and medium enterprises, as well as large enterprises. They can be both privately or publicly traded organizations.

Generally, a private enterprise is formed by establishing a new company. However, there can even be the privatization of existing public sector companies. Typically, these companies are run with a singular motive of maximum profit generation. This plan is usually promoted by building a brand reputation. These enterprises must follow government norms and regulations. However, these are not controlled by government entities and usually focus more on quality than quantity.

Generally, private enterprises offer maximum employment in an economy. They mainly focus on the performance of an employee for his/her job stability. The list mentioned below consists of some of the most prominent private sector examples in an economy.

- Educational services like private schools, colleges and universities along with the numerous available professional courses
- Telecommunication services in a country
- IT services which are usually global in nature
- Courier services that function within and beyond national boundaries

What is a Public Sector Enterprise?

The single defining characteristic that students must understand while learning public sector meaning is that they are owned, controlled, and managed by government bodies. This ownership, control, and management by a government body can be complete or partial. Vitally, these companies usually come under specific ministries and are functionally administered by them. Notably, few public sector enterprises are set up by Parliamentary acts. These acts define both their functioning and control.

A public enterprise primarily focuses on providing cheaper goods and services to the general people. It includes central government bodies, state government entities, and even local government authorities. This sector can be broadly divided into two sections depending on its government control.

- Financed entirely by a government body with the help of revenues like taxes, excise, and other duties, etc.
- More than 51% share capital of an enterprise is owned by a government entity

<u>Forms of Public Sector Enterprise:</u>

1. Departmental Undertaking
2. Statutory Corporation
3. Government Company

1. **Departmental Undertaking**:

Departmental enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself. They have not been constituted as autonomous or independent institutions and as such are not independent legal entities. These undertakings are under Central or State Government and the rules of Central/State Government are applicable.

Eg. Post and Telegraph.

Features:

The main characteristics of Departmental Undertaking are as follows-

- The funding of these undertakings comes directly from the government.
- They are subject to accounting and audit controls applicable to other govt. activities.
- The recruitment and conditions of employment are the same as any other employee directly under the government.
- It is subject to direct control of the concerned ministry.
- Accountability of such enterprise is to the concerned ministry.

Merits:

Departmental undertakings have certain advantages which are as follows-

- These facilitate the Parliament to exercise effective control over its operations.
- These ensure a high degree of public accountability.
- The revenue earned is a source of income for the govt. as it goes directly to the treasury.
- National security is not at all at risk as it is under the direct control of the government.

Limitations:

This form of organization has some drawbacks too, which are-

- It fails to provide flexibility.
- No scope for the employees and heads to take independent decisions.
- These enterprises fail to take advantage of business opportunities.
- There is red-tapism involved.
- It also suffers from a lot of political interference.

2. **Statutory Corporation**:

Statutory Corporations are public enterprises that are brought into existence by a Special Act of Parliament. The Act defines its powers and functions, rules and regulations governing its employees, and its relationship with government departments. It enjoys the legal identity of a corporate person and has the capacity of acting under its name.

Features:

Statutory Corporations have certain distinct features, which are discussed below-

- These are set up under an Act of Parliament and are governed by the provisions of the Act.
- This type of organization is wholly owned by the state.
- These act as a corporate body and can sue or be sued, enter into a contract, and own property in its name.
- This type of organization is usually independently financed.
- These are not subject to the same accounting and audit controls applicable to other govt. departments.

Merits:
This form of organization enjoys certain advantages in its working which are as follows-
- They enjoy independence in their functioning and a high degree of operational flexibility.
- Govt. interference in these types of organizations is less.
- They frame their policies and procedures within the powers assigned to them.
- It plays a vital role in economic development.

Limitations:
This type of organization suffers from several limitations, which are as follows-
- All actions of a Statutory Corporation are subject to many rules and regulations.
- Government and Political inferences are always there in major decisions.
- Where there is dealing with the public, rampant corruptions exist.
- Any important decision or action is always delayed due to advisors appointed by the govt. in the corporation board.

3. **Government Company**:
A Government company is established under the Indian Companies Act and is registered and governed by the provisions of the Indian Companies Act. According to the Indian Companies Act 2013, any company in which not less than fifty-one percent of the paid-up share capital is held by the Central Government, or by any State Government or Government, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company is called Government Company.

Features:
Government Company has certain characteristics which makes them distinct from other forms of organizations. These are discussed as follows-
- It is an organization created by the Indian Companies Act 2013.
- It has a legal identity.
- The management of the company is regulated by the provisions of the Companies Act, like any other Public Limited Co.
- The employees of the organization are appointed according to their own rules and regulations.
- These companies are exempted from the accounting and audit rule procedures. An appointed auditor by the central or state govt. presents the Annual Report directly in the parliament or state legislature.

Merits:
Government companies have certain advantages which are as follows-
- A separate Act in the parliament is not required to set up a Government Company.
- It has a separate legal entity, apart from the government.
- It enjoys autonomy in all management decisions.
- These companies provide goods and services at reasonable prices and curb unhealthy business practices.

Limitations:
Despite the autonomy given to these companies, they have certain disadvantages-
- Since the Government is the only shareholder in some of the Companies, the provisions of the Companies Act are not of much relevance.
- As it is not answerable directly to the parliament, it evades constitutional responsibility which a company financed by the govt. should have.
- The management and administration of such companies rest in the hands of govt., so the main purpose of a Government company, registered like other companies is defeated.

Difference between Private Sector and Public Sector Enterprise

Basis of Comparison	Private Sector	Public Sector
Definition	It is a type of business enterprise that is owned, managed, and controlled by an individual or a group of individuals.	It is a type of business enterprise that is owned, managed, and controlled by the government.
Objective	Primarily towards profit maximization. Mainly focus on constructing a brand image.	Primarily towards serving the general population of a country with the available resources.
Source of capital	Capital can be obtained by loans, issuing shares and debentures, etc.	Capital is obtained by public revenue earnings like taxes, excise and other duties, treasury bills, bonds, etc.
Areas generally covered	Financial sectors, information technology, mining corporations, transport, education, telecommunication sectors, manufacturing units, construction enterprises, pharmaceuticals, etc.	Armed forces like police, army, airforce, navy, basic health, educational, and transport facilities, electricity, agricultural sector, insurance, etc.
Benefits usually offered	Higher salary packages based on progress and merit, competitive environment of working, incentives and bonuses, etc.	Highly secured jobs, multiple retirement benefits, allowances and perquisites, etc.
Basis of promotion	It is generally based on merit and progress, along with commitment and production values.	While merit and progress are also considered at some level, it primarily depends on seniority and years of employment.
Stability	Usually unstable since it is based on merit and production output.	It is not threatened by the parameters of merit, progress, production output, revenue generation, etc.

Key Differences between Public Enterprise And Private Enterprise

1. **Minimum Paid Up Capital:** A company incorporated as a private company must have a paid-up capital of Rs. 1,00,000 whereas a company incorporated as a public company must have a paid-up capital of Rs, 5,00,000.

2. **Minimum Number of Members:** Minimum number of members required to form a private company is 2 whereas the minimum number of members required to form a public company is 5.

3. **Maximum Number of Members:** Maximum number of members in private companies is restricted to 200 according to companies act 2013, whereas there is no restriction on the maximum number of members in a public company.

4. **Transferability of Share:** Transferability of share by the Article of Association in the case of a private company is completely restricted whereas there is no restriction on the transferability of shares in the case of a public company.

5. **Issue of Prospectus:** A private company is restricted to inviting the public for the subscription of shares. This implies that a private company cannot issue a prospectus whereas a public company is free to invite the public for a subscription of shares. This implies that a public company cannot issue a prospectus.

6. **Number of Directors:** A private company may have a minimum of 2 directors to manage the affairs of the company whereas in a public company there can be a minimum of 3 directors.

7. **Business Commencement:** A private company can immediately commence its business after incorporation whereas a public company cannot commence its business until the certificate to commencement of business is issued to it.

8. **Share Warrants:** A private company is not authorized to issue share warrants against its fully paid share whereas a public company is authorized to issue share warrants against its fully paid-up share.

9. **Statutory Meetings:** A private company has no obligations to call the statutory meeting of the manager whereas a public company can call the statutory meetings and file the statutory report with the registrar of companies.

10. **Special Privilege:** A private company can enjoy some privileges which are not available to public companies.

2 MARKS QUESTIONS

1. Define Market?

Market is a place where buyer and seller meet, goods and services are offered for the sale and transfer of ownership occurs. A market may be also defined as the demand made by a certain group of potential buyers for a good or service.

Market is defined as a place or point at which buyers and sellers negotiate their exchange of well-defined products or services.

2. What is The Meaning of Perfect Market?

A market structure in which all firms in an industry are price takers and in which there is freedom of entry into and exit from the industry is called perfect competition. The market with perfect competition conditions is known as perfect market.

3. Explain About Price Skimming Method?

When the product is introduced for the first time in the market, the company follows this method. Under this method, the company fixes a very high price for the product. The main idea is to charge the customer maximum possible. For example Sony introduces a particular TV model , it fixed a very high price and other company.

4. Explain About Price Penetration Method?

Here the price of the product is fixed so low that the company can increase its market share. The company attains profits with increasing volumes and increase in the market share. More often, the companies believe that it is necessary to dominate the market in the long –run making profit in the short-run.

5. Define Monopolistic Competition?

Monopolistic competition is said to exist when there are many firms and each one produces such goods and services that are close substitutes to each other. They are similar but not identical. Product differentiation is the essential feature of monopolistic. Products can be differentiated by means of unique facilities, advertising, brand loyalty, packaging, pricing, terms of credit, superior maintenance services, and convenient location and so on.

6. Define Sole Trader?

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, skill and intelligence. He is the boss for himself. He has total operational freedom. He is the owner, Manager and controller. He has total freedom and flexibility. Full control lies with him. He can take his own decisions. He can choose or drop a particular product or business based on its merits. He need not discuss this with anybody. He is responsible for himself. Restaurants, Supermarkets, pan shops, medical shops, hosiery shops etc.

7. What is The Meaning of Partnership Deed?

The written agreement among the partners is called "The Partnership Deed". It contains the terms and conditions governing the working of partnership. The following are contents of the partnership deed.

8. What are Documents Required to Formation of Joint Stock Company?

Joint Stock Company requires the following legal documents:

- Article of Association
- Memorandum of Association
- Prospectus

The documents are submitted to the Registrar of Companies (ROC). The ROC issues a certificate of incorporation after reviewing the documents.

9. Define Government Company?

Government companies are those in which more than 50% of share capital is held by either the central government, or by one or more state government, or jointly by the central government and one or more state government.

10. Define Monopoly?

The word monopoly is made up of two syllables, Mono and poly. Mono means single while poly implies selling. Thus monopoly is a form of market organization in which there is only one seller of the commodity. There are no close substitutes for the commodity sold by the seller. Pure monopoly is a market situation in which a single firm sells a product for which there is no good substitute.

11. Define Oligopoly Market?

The term oligopoly is derived from 'oligi', meaning few and 'polein', meaning to sell. A market situation where the number of big sellers of a commodity is less and the number of buyers is more is known as Oligopoly Market. The sellers in the oligopoly market sell differentiated or homogeneous products. Sometimes, there are few sellers in the oligopoly market, and every seller gets influenced by other sellers and influences them too, which is also known as 'competition among the few'.

12. Define Partnership Act?

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.

13.Define Joint Stock Company?

A joint stock company is an association joining together for carrying on business and having a separate legal entity. The persons joining the business contribute to the stock of the company are called share holders.

14.Explain About Departmental Undertaking?

Departmental enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself. They have not been constituted as autonomous or independent institutions and as such are not independent legal entities. These undertakings are under Central or State Government and the rules of Central/State Government are applicable.

Eg. Post and Telegraph.

15.Explain About Public Corporation?

A public corporation is defined as a ‘body corporate create by an Act of Parliament or Legislature and notified by the name in the official gazette of the central or state government. It is a corporate entity having perpetual succession, and common seal with power to acquire, hold, dispose off property, sue and be sued by its name”.

16.Define Sole Proprietorship of Business?

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.

17.Explain Memorandum of Association?

The Memorandum of Association is also called the charter of the company. It outlines the relations of the company with the outsiders. If furnishes all its details in six clause such as (ii) Name clause (II) situation clause (iii) objects clause (iv) Capital clause and (vi) subscription clause duly executed by its subscribers.