

**Course**  
**on**  
**HS205: consumer Behaviour and Welfare Economics**  
**3<sup>rd</sup> semester**  
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**Instructor**

**Dr. Hari K. Choudhury**  
Assistant Professor of Economics  
Indian Institute of Information Technology Guwahati – 781 001

# **Markets**

**1. Meaning**

**2. Types of market:**

**i. Place**

**ii. Time**

**iii. Competition**

- i. Place:**
  - a. Local**
  - b. National**
  - c. International**

# Markets

## ii. Time:

- a. Very short run;
- b. Short run;
- c. Long run;
- d. Very long run

### **iii. Competition:**

- a.** Perfect competition
- b.** Monopoly
- c.** Imperfect competition

**c. Imperfect competition:**

**a.** Monopolist competition

**b.** Oligopoly

A. Cournot's duopoly model

B. Chamberlin's duopoly model

C. Edgeworth's duopoly model

## **Some concepts related to cost and revenue**

**i. Cost:** AC or ATC, MC, AVC, FC, AFC

**ii. Revenue:** AR, MR, TR

# **Characteristics of Perfect Competition**

- i. Large no. of buyers and sellers
- ii. Homogeneous products
- iii. Free entry and exit
- iv. Both buyers and sellers possess complete knowledge of the market conditions

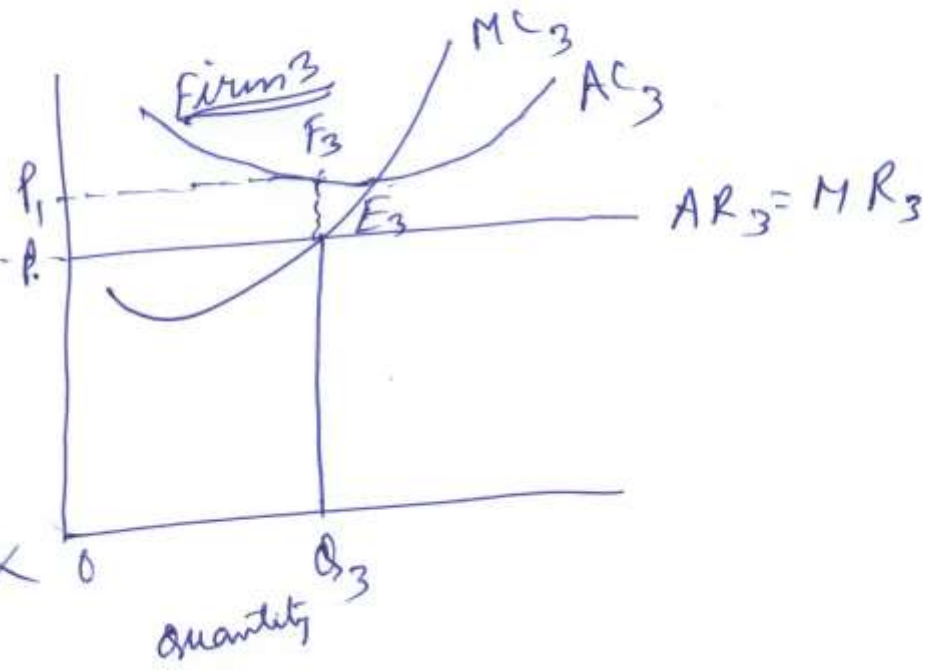
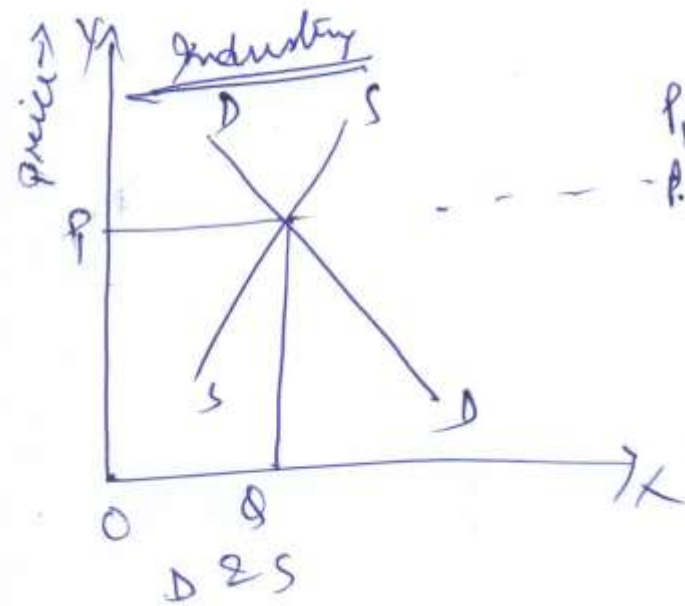
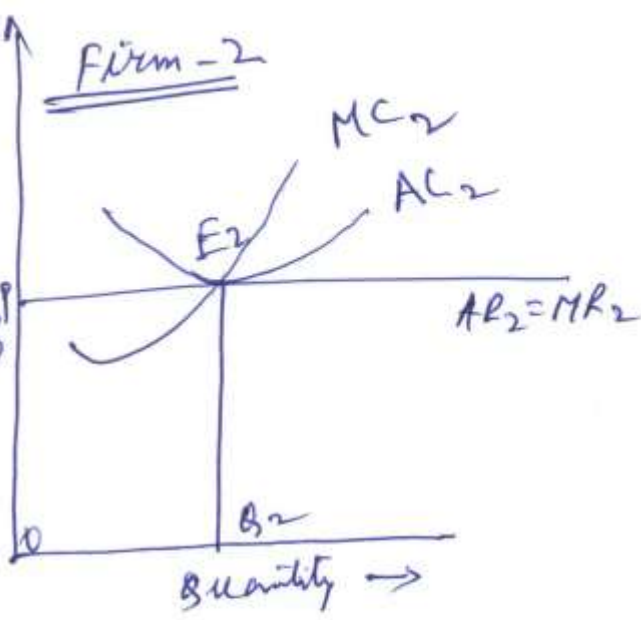
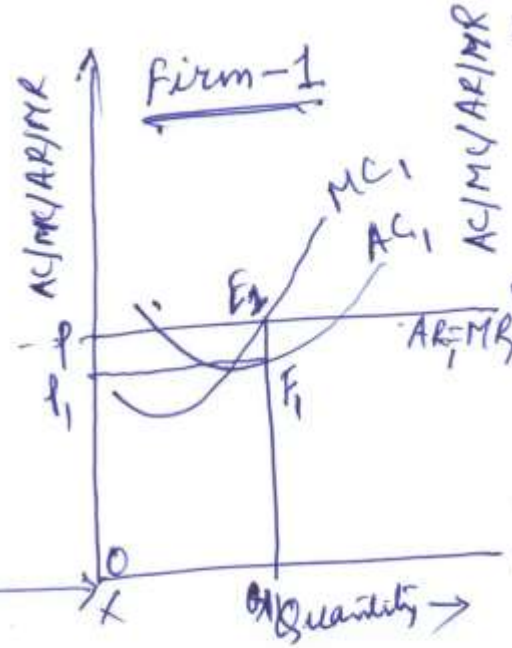
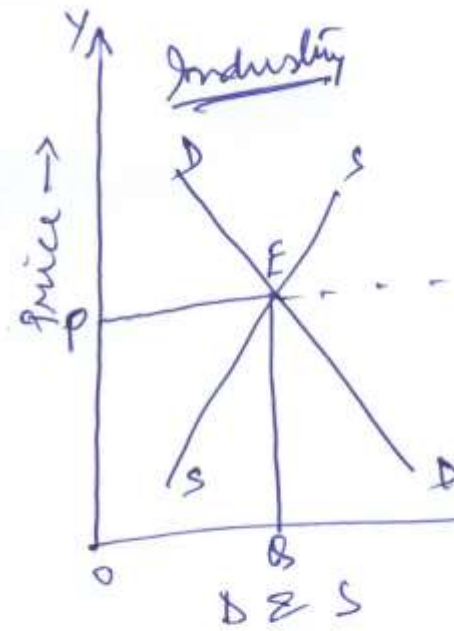


# **Price determination in Perfect Competition**

- i. Very short run**
- ii. Short run**
- iii. Long run**

# **Equilibrium of a firm in Perfect Competition**

- i. Short run**
- ii. Long run**

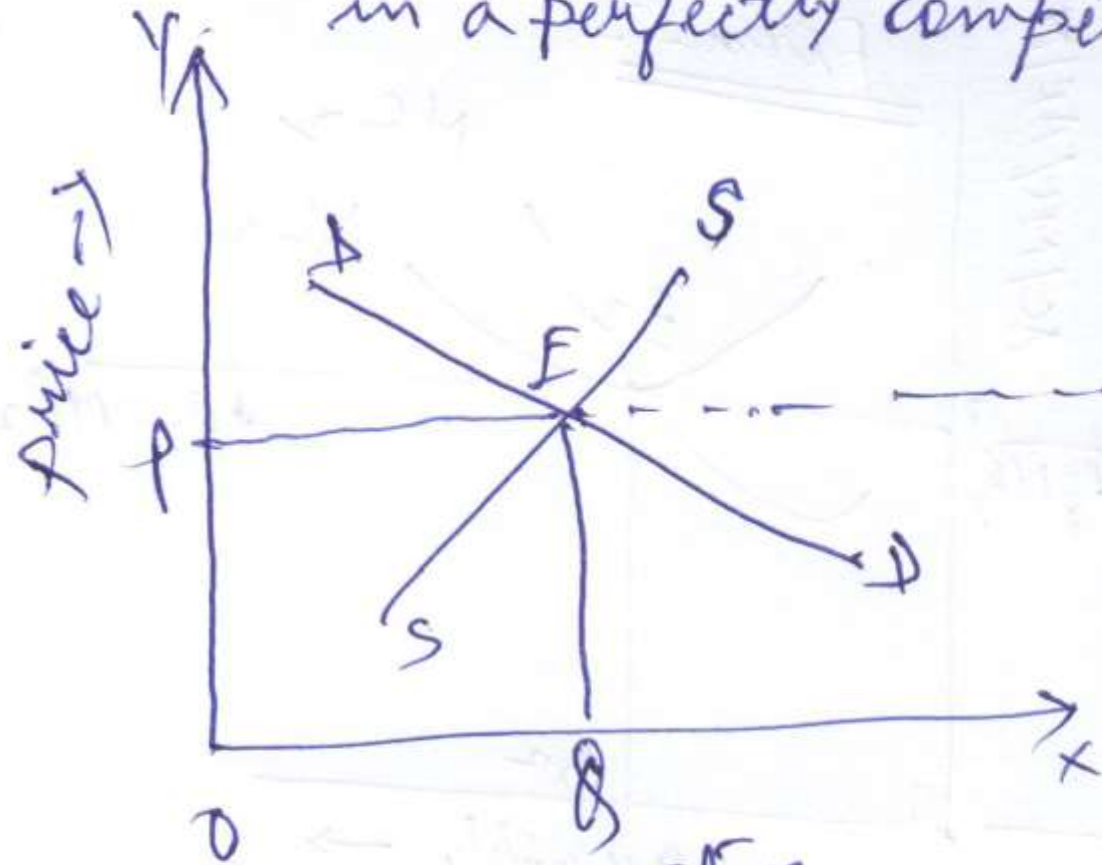


Q1. In a perfectly competitive market, the price of a product is Rs 4 & the TC of a firm is given by

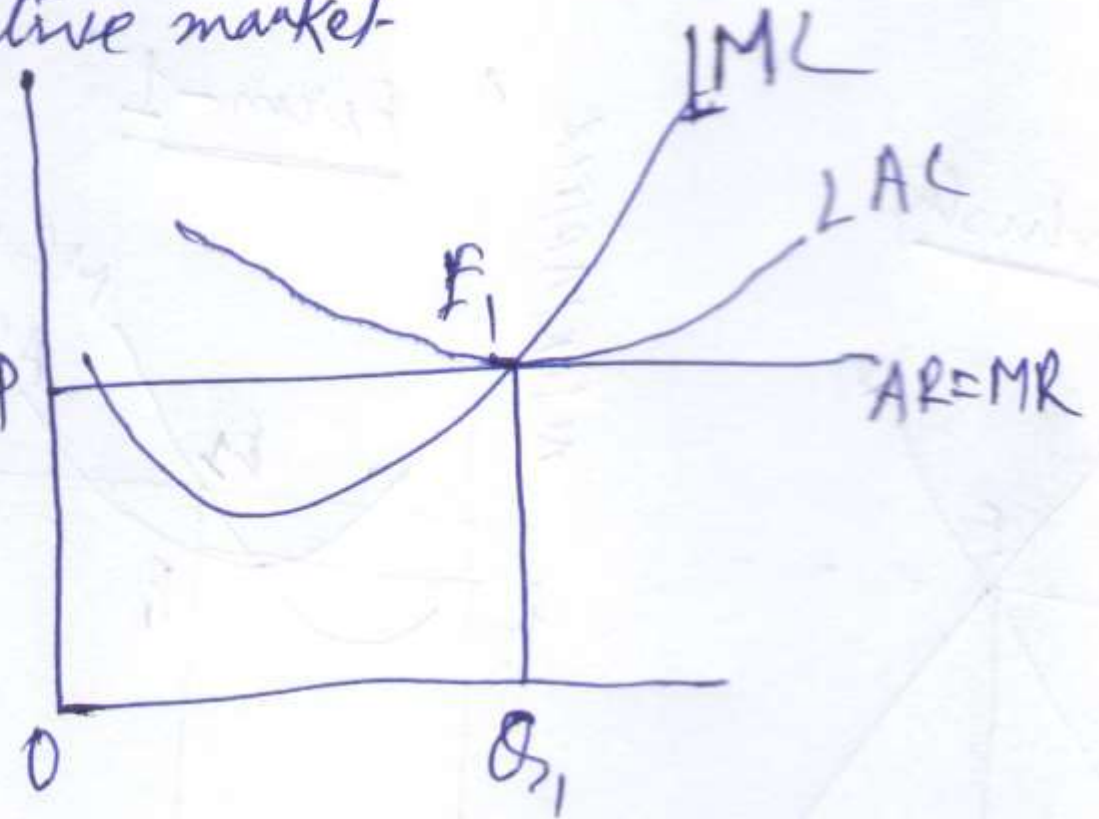
$$C = Q^3 - 15Q^2 + 31Q + 100$$

Find the profit maximising output & max<sup>m</sup> profit.

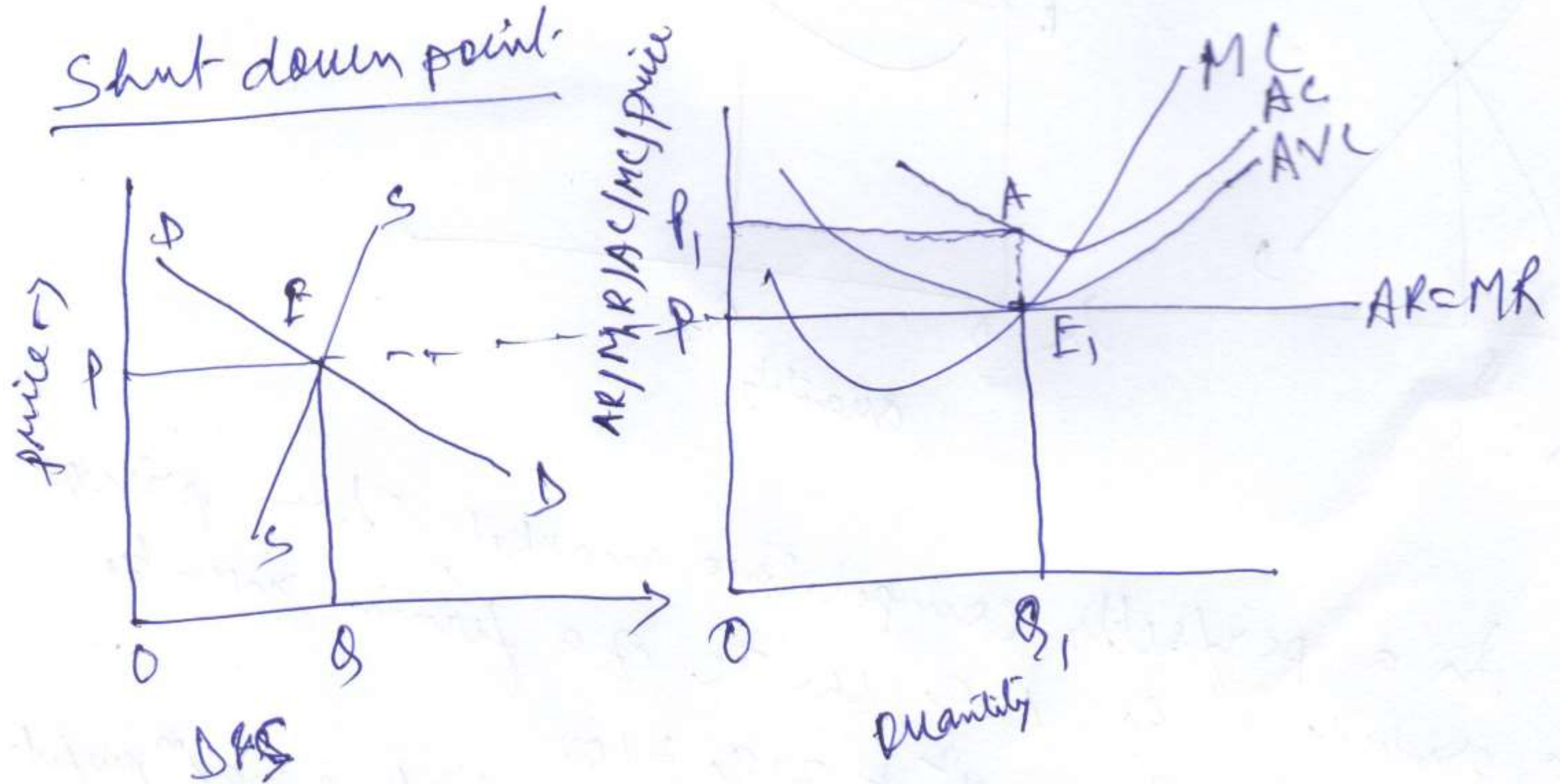
Long run equilibrium of a firm  
in a perfectly competitive market-



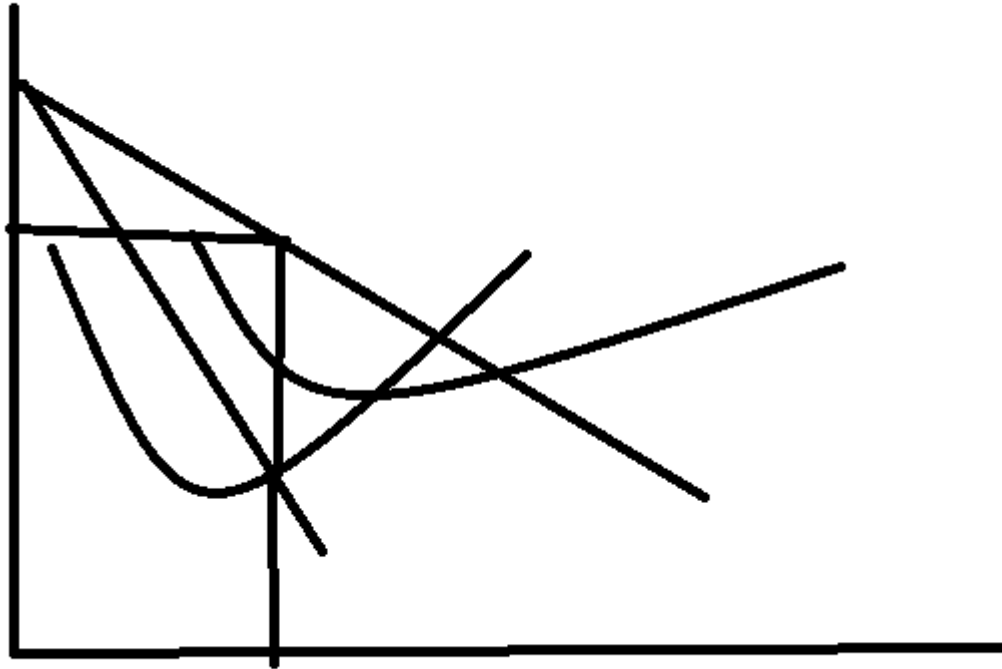
Quantity  
D & S



# Shut down point:



# Price determination in a monopoly market:



# **Sources or causes of monopoly**

- i. Patents or copyright**
- ii. Control over the essential raw material**
- iii. Grant of franchise by the government**
- iv. Economies of scale: Natural monopoly**
- v. Brand loyalties**



## **Problem 1:**

**The TC function and demand function of a monopolist are given as**

$$\text{TC} = 6Q + 0.05 Q^2$$

$$Q = 360 - 20p$$

**Find out the equilibrium quantity, price and profits**

## **Problem 2:**

**A monopolist has the following TC function**

$$\mathbf{TC = 10 + 5Q}$$

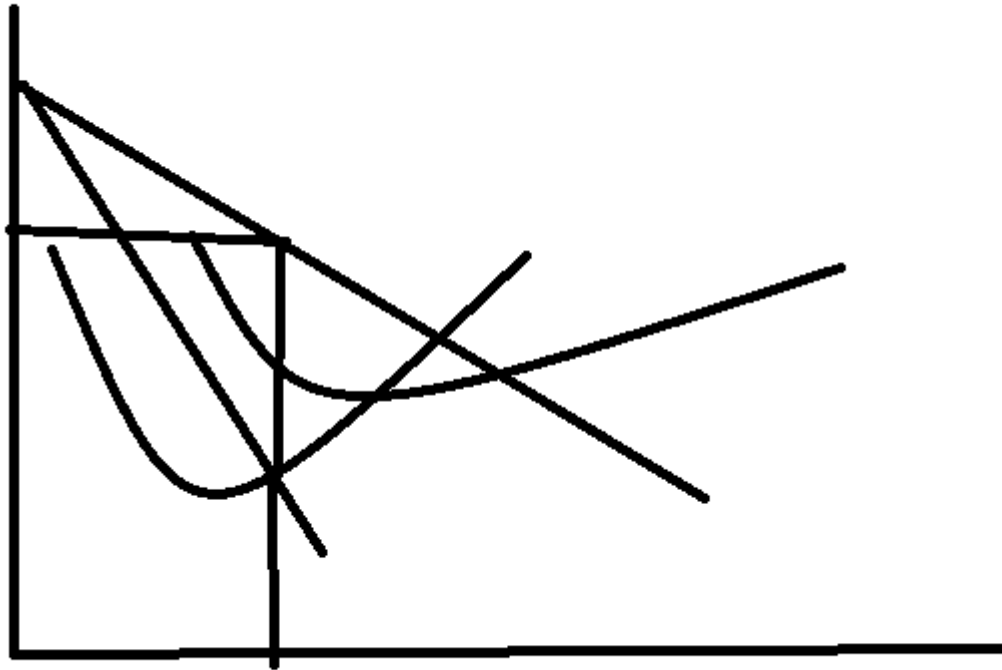
- i. If the price elasticity of demand for his product is -2, find out what price the monopolist will fix for his product
- ii. If the price elasticity of demand for his product changes to -4, how will he change his product?

# **Monopolistic competition:**

## **Characteristics of Monopolistic competition:**

- i. Large no. of buyers and sellers**
- ii. Product differentiation**
- iii. Free entry and exit**
- iv. Selling cost is necessary**

# Price determination in a monopolistic competition:



# **Oligopoly:**

## **Characteristics of Monopolistic competition:**

- i. Few sellers and large no. of buyers**
- ii. Interdependence in decision making**
- iii. Importance of selling cost**
- iv. Group behavior**