Lec-7.

Market Structure

The ultimate goal of consumer and producer.

By the term Market in economics we understand a process in which a product is sold by the interaction of buyers and sellers.

Classification

1. Time
   - ① Temporary ⇒ vegetables, fish, meat, egg etc
   - ② Permanent ⇒ car, flat, dress, books etc
2. Durability
   - ① Temporary = fish meat, egg etc, vegetable
   - ② Permanent = cars, flat, dress, book etc

3) Competition

3.1 Pure / Perfect

⇓

Many seller

⇓

Homogeneous product.

⇓

e.g. Graduate Electrical Engineers of Bangladesh

3.2. Imperfect

3.2.1. Monopoly

⇓

single seller

⇓

Unique product

⇓

DESCO, DESA, WASA

3.2.2. Oligopoly

⇓

few seller

⇓

slightly differentiate product

⇓

Ex - Mobile service providers of Bd

3.2.3. Monopolistic competition

~~3.2.1~~ 3.1. Perfect competition

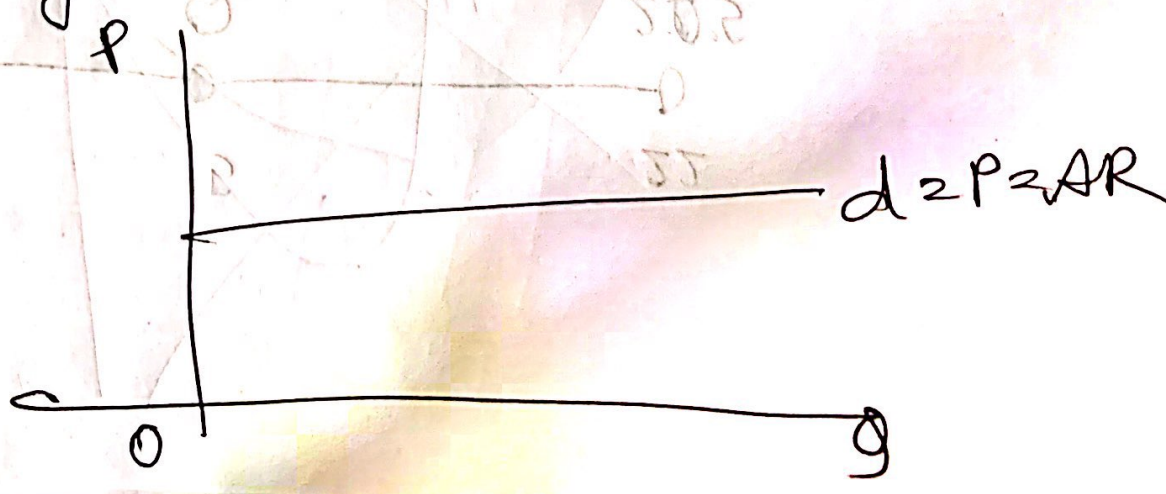
Large no of buyers and sellers deal in a homogeneous product.

Assumptions.

1) Large no of buyes and sellers.
2) Homogeneous product sold.
3) Perfect knowledge about the market.
4) No-ban for entry and exit.

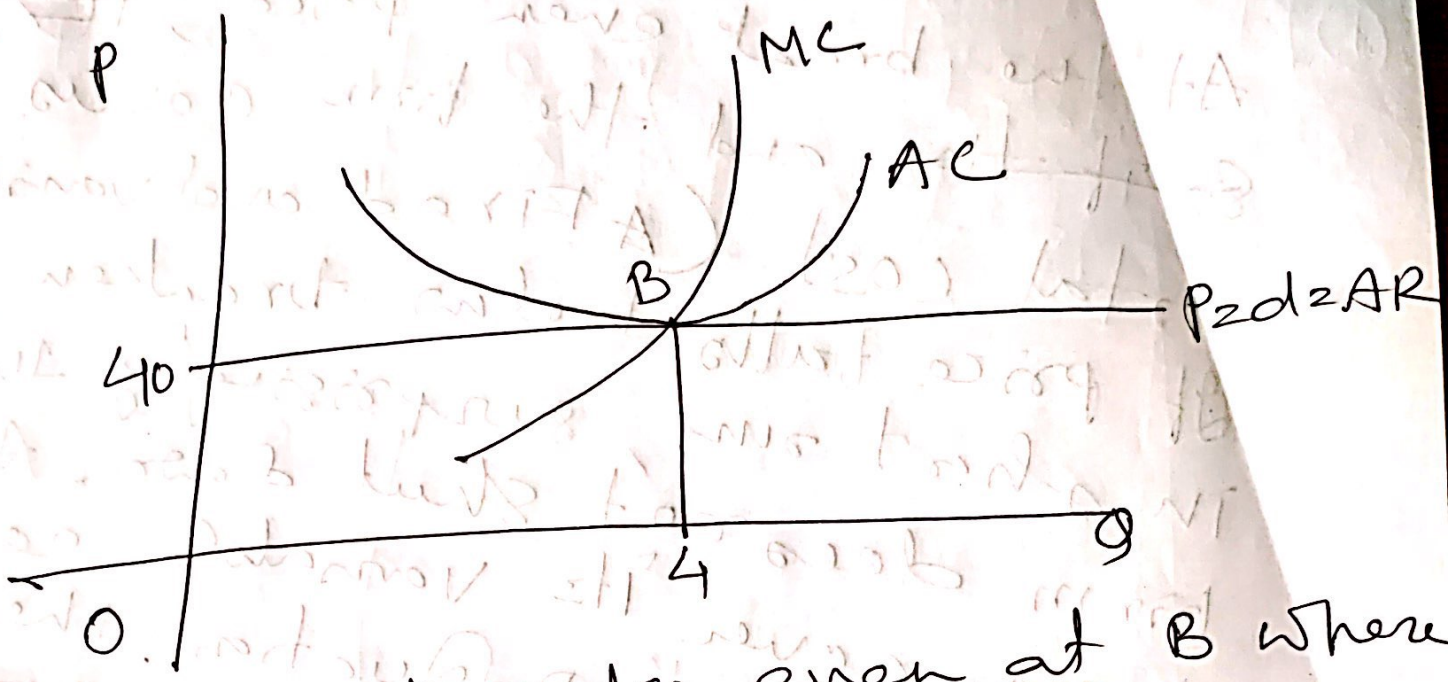
~~Differe~~ ~~3.2~~

3.1.1. DD curve for a firm (Perfectly elastic).



3.1.2.

Break even point for a firm in short run (P=MC)



The firm breaks even at B where P=MC and $\Pi = 0$.

From B ⟶

$\Pi = TR - TC$

$TR = P \times Q = 40 \times 4 = 160$

$TC = AC \times Q = 40 \times 4 = 160$

$\Pi = 0$ (normal profit)

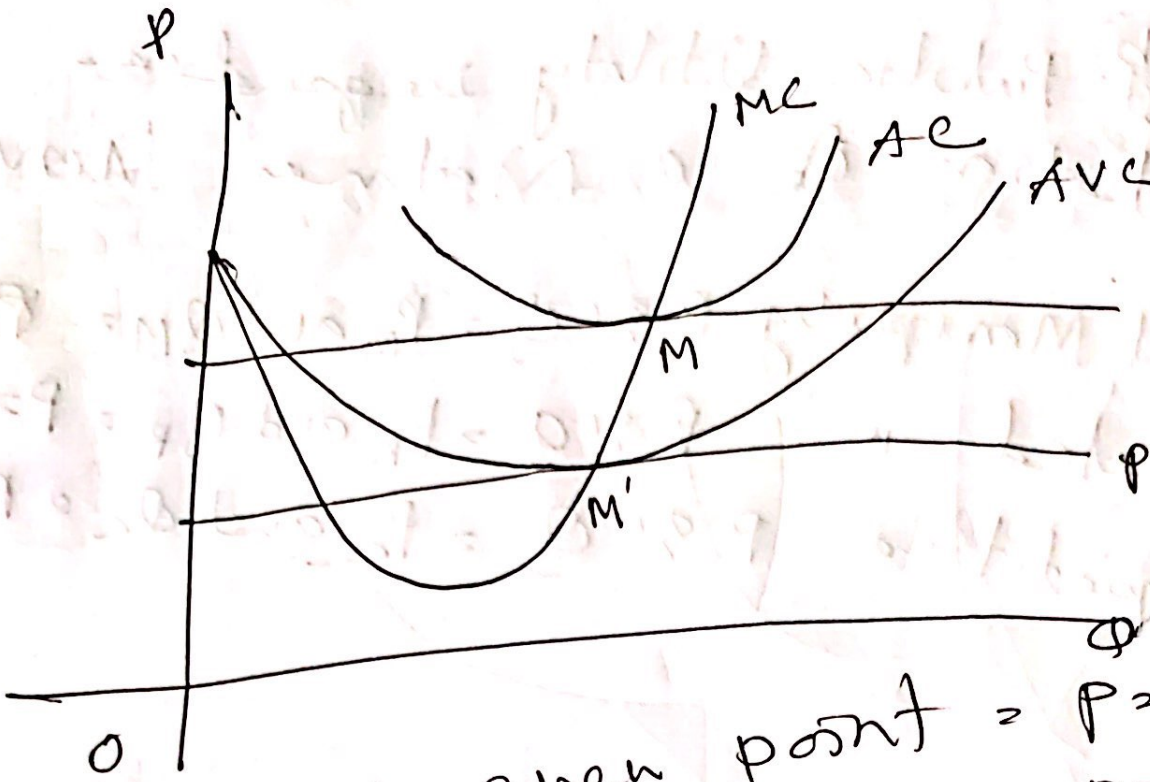
In short run, Π is always 0 or P=MC

If P>MC only then $\Pi > 0$.

3.1.1.

Shut down condition for a firm in short run (~~AC=M~~ P = AVC).

At the break even price; ~~⇒~~ $\Pi = 0$. and the firm covers its total cost (Fixed and variable). If price falls below breaken level in short run, surprisingly the firm does not shut down. As it can cover its variable cost by continuing production. The firm shuts down where P = AVC. Below that point the firm cannot cover its variable cost any longer.

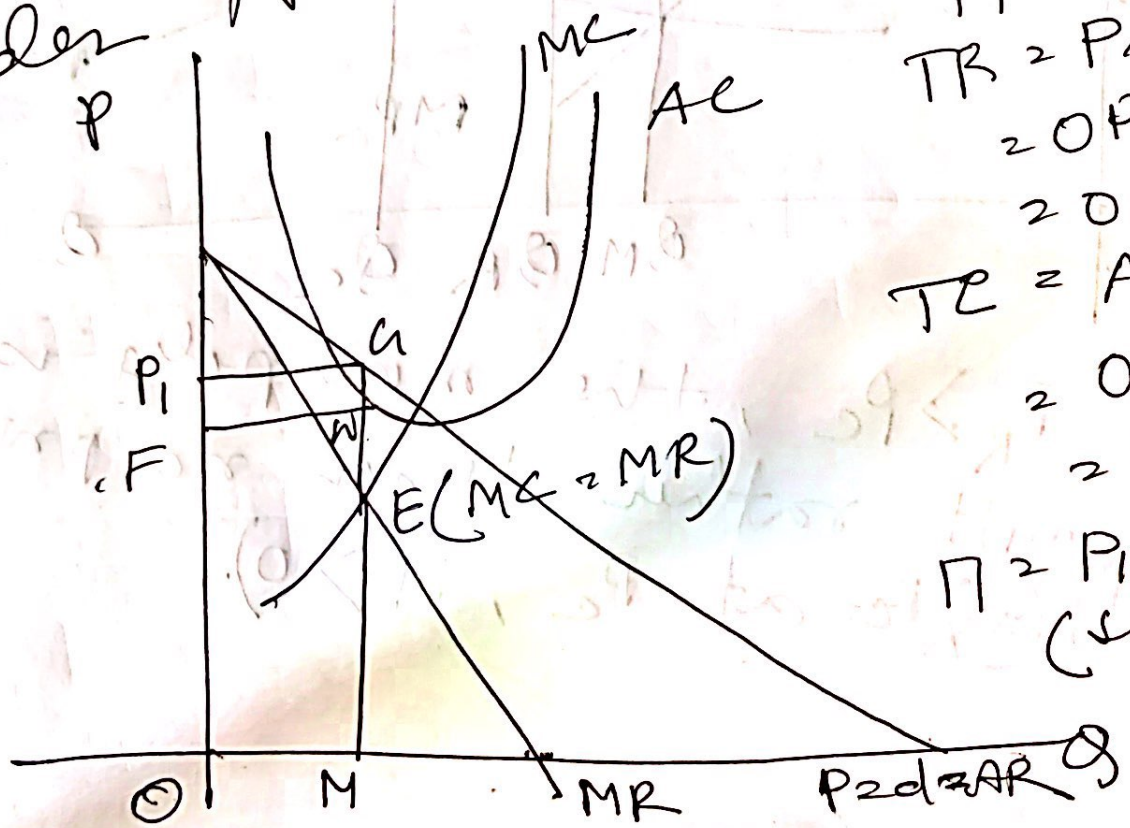


M = Break even point = P = MC

M' = Shut down " = P = AVC.

3.2.1. Monopoly

3.2.1.a) Price-output determination Under Natural Monopoly (MC = MR)



$\Pi = TR - TC$

$TR = P \times Q$

$= OP_1 \times OM$

$= OP_1GM$

$TC = AC \times Q$

$= OF \times OM$

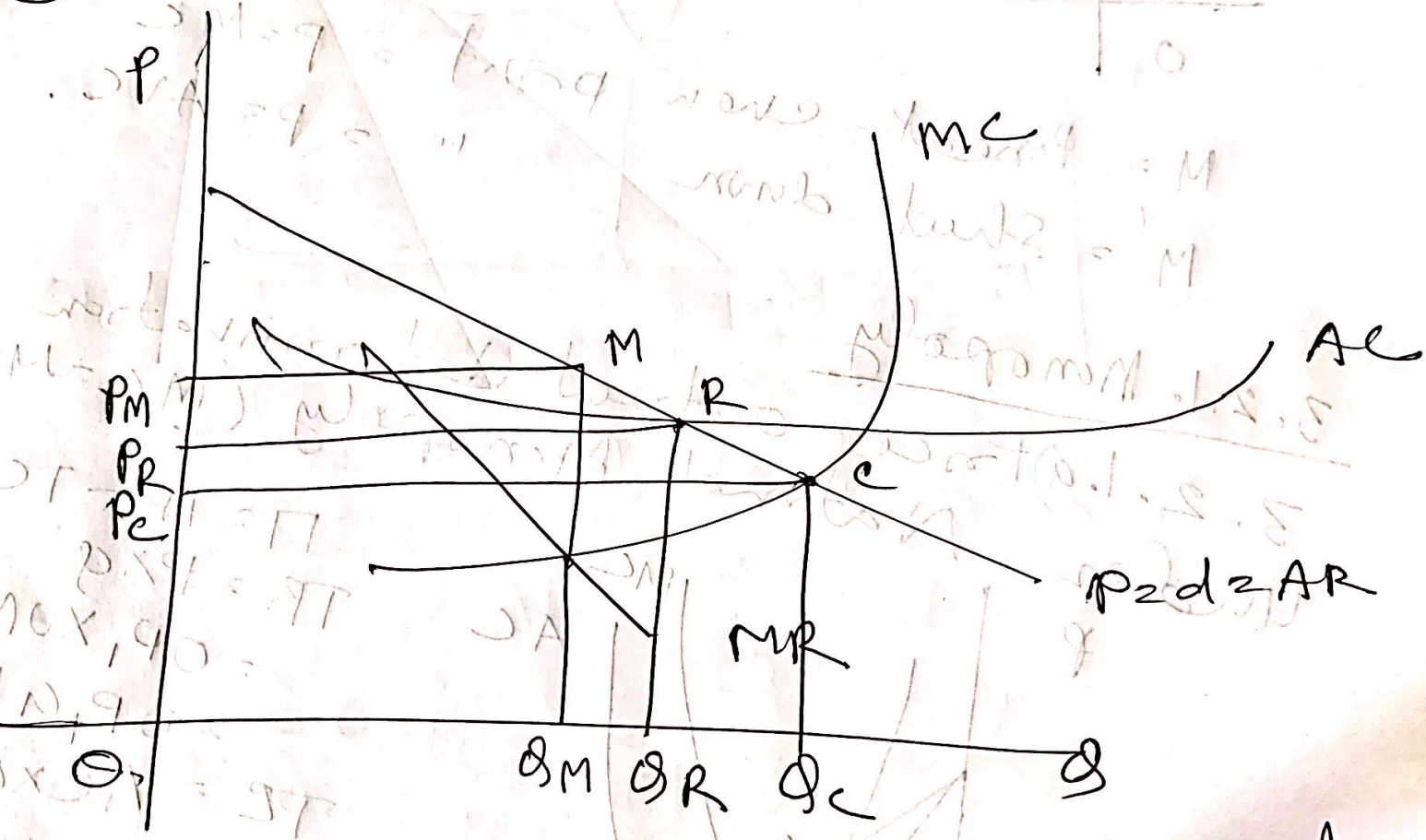
$= OFWM$

$\Pi = P_1GWF > 0$

(super normal profit)

3.2.1. b) Public Utility ~~Regulation~~
Regulation of a Natural Monopoly

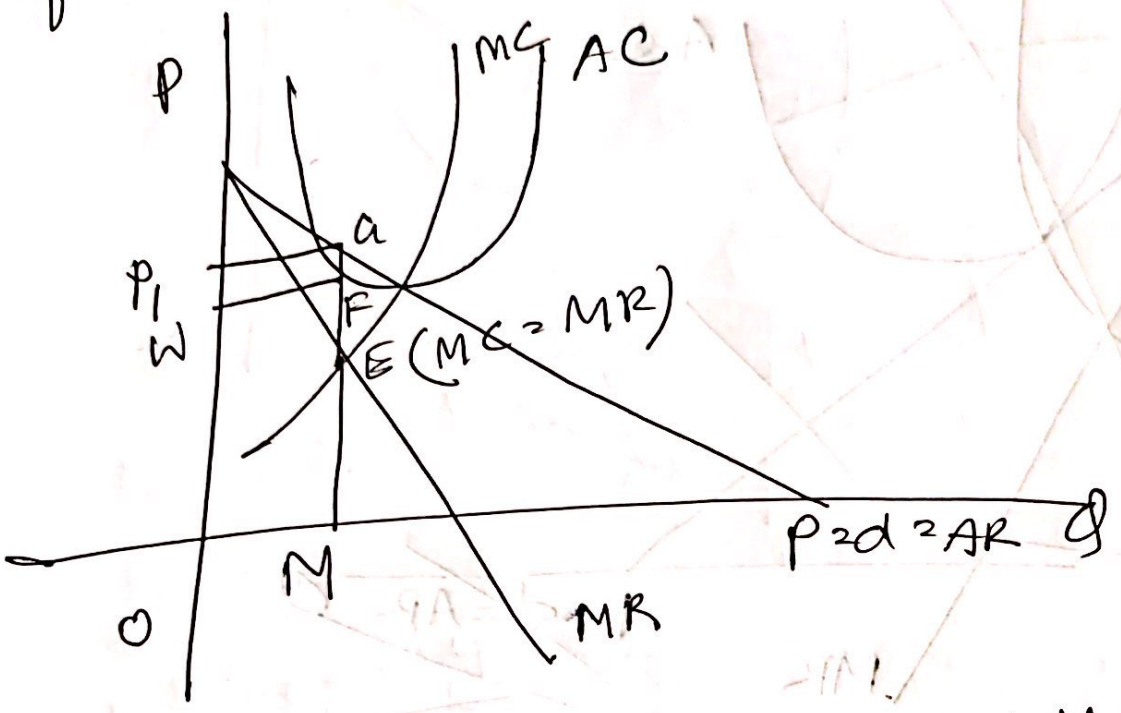
① Natural Monopoly P & Q = P_M and Q_M = MC=MR
② Regulated " P & Q = P_R and Q_R = P=AC
③ Competitive P & Q = P_C and Q_C = P=MC



as $P_R > P_C$, the monopoly is making a profit rather than no profit at all (~~at~~ ~~P_C~~ at P_C, $\Pi > 0$).

3.2.3. Monopolistic Competition

3.2.3.a) Short run supernormal profit of a firm (MC=MR)



$\Pi = TR - TC$

$TR = P \times Q = OP_1 \times OM = OP_1GM$

$TC = AC \times Q = OW \times OM = OWFM$

$\Pi = P_1GFW > 0$ (supernormal profit.

3.2.3.b) Short run loss for a firm (MC=MR)

$\Pi = TR - TC$

$TR = P \times Q$

$= OP_1 \times OM$

$= OP_1GM$

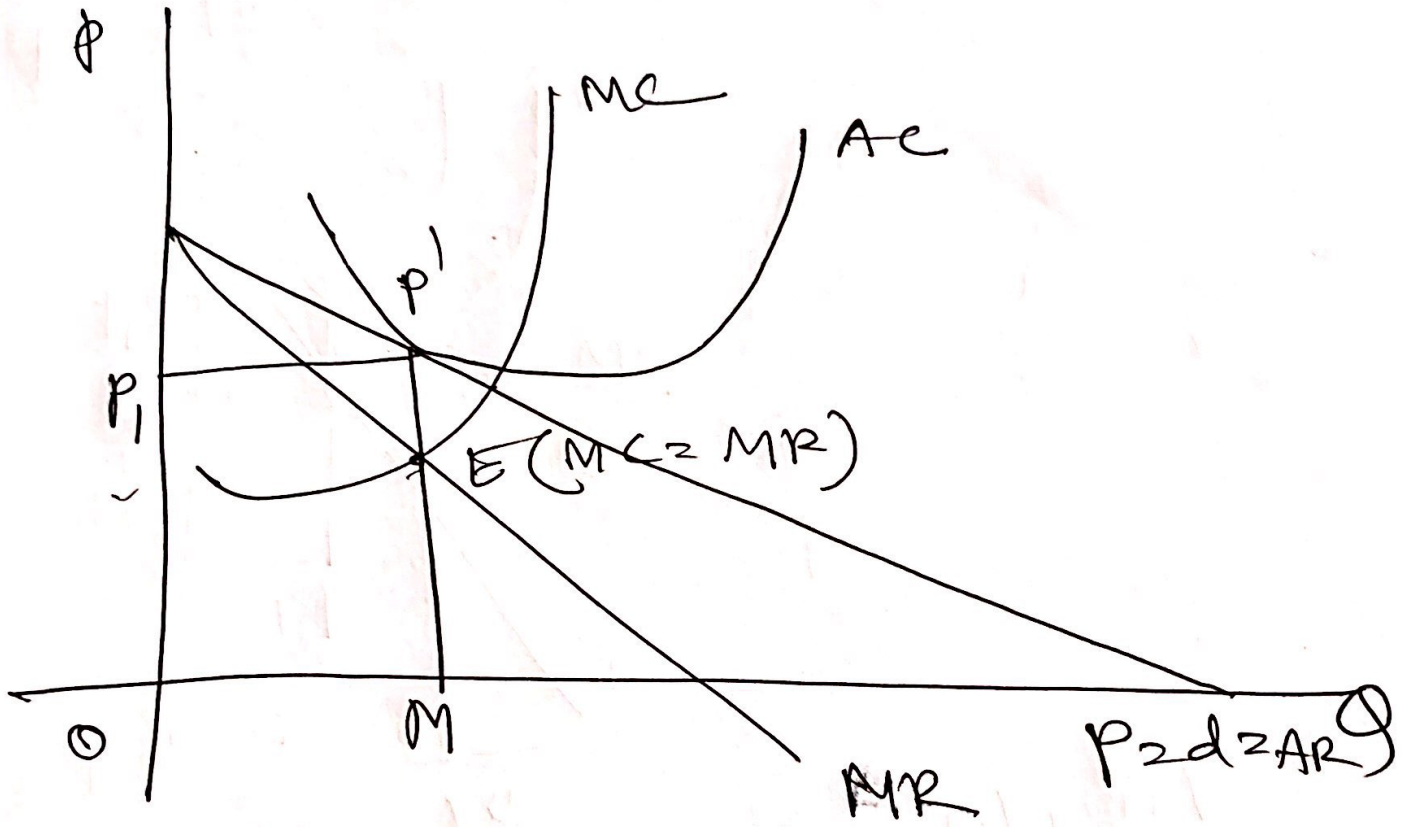
$TC = AC \times Q$

$= OT_1 \times OM$

$= OT_1T'M$

$Loss = T_1T'GP_1$

3.2.3.c) Diagram normal Profit [(AC = AR) and (MC = MR)]



$\Pi = TR - TC$

$TR = P \times Q = OP_1 \times OM = OP_1P'M$

$TC = AC \times Q = OP_1 \times OM = OP_1P'M$

$\Pi = 0$ (normal profit).