Chapter One: Market Structure (Part A)

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Market: Definition and Features

Definitions of Market:

Economists understand by the 'Market' not any particular market place in which things are bought and sold but the whole of any region in which buyers and sellers are in such free intercourse with one another that the prices of the same goods tend to equality, easily and quickly."

This definition of market brings out the following essential points:

(a) A market may be a region, which may be a district, state, country or even the whole world from which buyers and sellers are drawn and not any particular place where they assemble.

(b) There must be business intercourse among the dealers, i.e., buyers and sellers. They must be in touch with one another, so that they are aware of the prices offered or accepted by other buyers and sellers.

(c) The same price must rule for the same thing at the same time.

Features of Market:

Essential characteristics of a market are as follows:

1. One commodity:

In practical life, a market is understood as a place where commodities are bought and sold at retail or wholesale price, but in economics "Market" does not refer to a particular place as such but it refers to a market for a commodity or commodities i.e., a wheat market, a tea market or a gold market and so on.

2. Area:

In economics, market does not refer only to a fixed location. It refers to the whole area or region of operation of demand and supply

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3. Buyers and Sellers:

To create a market for a commodity what we need is only a group of potential sellers and potential buyers. They must be present in the market of course at different places.

4. Perfect Competition:

In the market there must be the existence of perfect competition between buyers and sellers. But the opinion of modern economist is that in the market the situation of imperfect competition also exists, therefore, the existence of both is found.

5. Business relationship between Buyers and Sellers:

For a market, there must exist perfect business relationship between buyers and sellers. They may not be physically present in the market, but the business relationship must be carried on.

6. Perfect Knowledge of the Market:

Buyers and sellers must have perfect knowledge of the market regarding the demand of the customers, regarding their habits, tastes, fashions etc.

7. One Price:

One and only one price be in existence in the market which is possible only through perfect competition and not otherwise.

8. Sound Monetary System:

Sound monetary system should be prevalent in the market, it means money exchange system, if possible, be prevalent in the market.

Perfect Competition: Meaning and Characteristics of Perfect Competition

Meaning and Definition of Perfect Competition:

In other words it can be said—”A market is said to be perfect when all the potential buyers and sellers are promptly aware of the prices at which the transaction take place. Under such conditions the price of the commodity will tend to be equal everywhere.”

Characteristics of Perfect Competition:

The following characteristics are essential for the existence of Perfect Competition:

1. Large Number of Buyers and Sellers:

The first condition is that the number of buyers and sellers must be so large that none of them individually is in a position to influence the price and output of the industry as a whole. In the market the position of a purchaser or a seller is just like a drop of water in an ocean.

2. Homogeneity of the Product:

Each firm should produce and sell a homogeneous product so that no buyer has any preference for the product of any individual seller over others. If goods will be homogeneous then price will also be uniform everywhere.

3. Free Entry and Exit of Firms:

The firm should be free to enter or leave the firm. If there is hope of profit the firm will enter in business and if there is profitability of loss, the firm will leave the business.

4. Perfect Knowledge of the Market:

Buyers and sellers must possess complete knowledge about the prices at which goods are being bought and sold and of the prices at which others are prepared to buy and sell. This will help in having uniformity in prices.

5. Perfect Mobility of the Factors of Production and Goods:

There should be perfect mobility of goods and factors between industries. Goods should be free to move to those places where they can fetch the highest price.

6. Absence of Price Control:

There should be complete openness in buying and selling of goods. Here prices are liable to change freely in response to demand and supply conditions.

7. Perfect Competition among Buyers and Sellers:

In this purchasers and sellers have got complete freedom for bargaining, no restrictions in charging more or demanding less, competition feeling must be present there.

8. Absence of Transport Cost:

There must be absence of transport cost. In having less or negligible transport cost will help complete market in maintaining uniformity in price.

9. One Price of the Commodity:

There is always one price of the commodity available in the market.

10. Independent Relationship between Buyers and Sellers:

There should not be any attachment between sellers and purchasers in the market. Here, the seller should not show prick and choose method in accepting the price of the commodity. If we will see from the close we will find that in real life **“Perfect Competition is a pure myth.”**

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Monopoly: Meaning, Definitions, Features and Criticism

Definitions:

Monopoly is a market situation in which there is a single seller. There are no close substitutes of the commodity it produces, there are barriers to entry”. -Koutsoyiannis

Features:

We may state the features of monopoly as:

1. One Seller and Large Number of Buyers:

The monopolist’s firm is the only firm; it is an industry. But the number of buyers is assumed to be large.

2. No Close Substitutes:

There shall not be any close substitutes for the product sold by the monopolist. The cross elasticity of demand between the product of the monopolist and others must be negligible or zero.

3. Difficulty of Entry of New Firms:

There are either natural or artificial restrictions on the entry of firms into the industry, even when the firm is making abnormal profits.

4. Monopoly is also an Industry:

Under monopoly there is only one firm which constitutes the industry. Difference between firm and industry comes to an end.

5. Price Maker:

Under monopoly, monopolist has full control over the supply of the commodity. But due to large number of buyers, demand of any one buyer constitutes an infinitely small part of the total demand. Therefore, buyers have to pay the price fixed by the monopolist.