



Market

Meaning of market

- **Market:** where goods and services are exchanged. Market consists of buyers and sellers with communicate each other for transition of goods and services at given price”.
- “Market is that mechanism by which buyers and sellers are bought together”

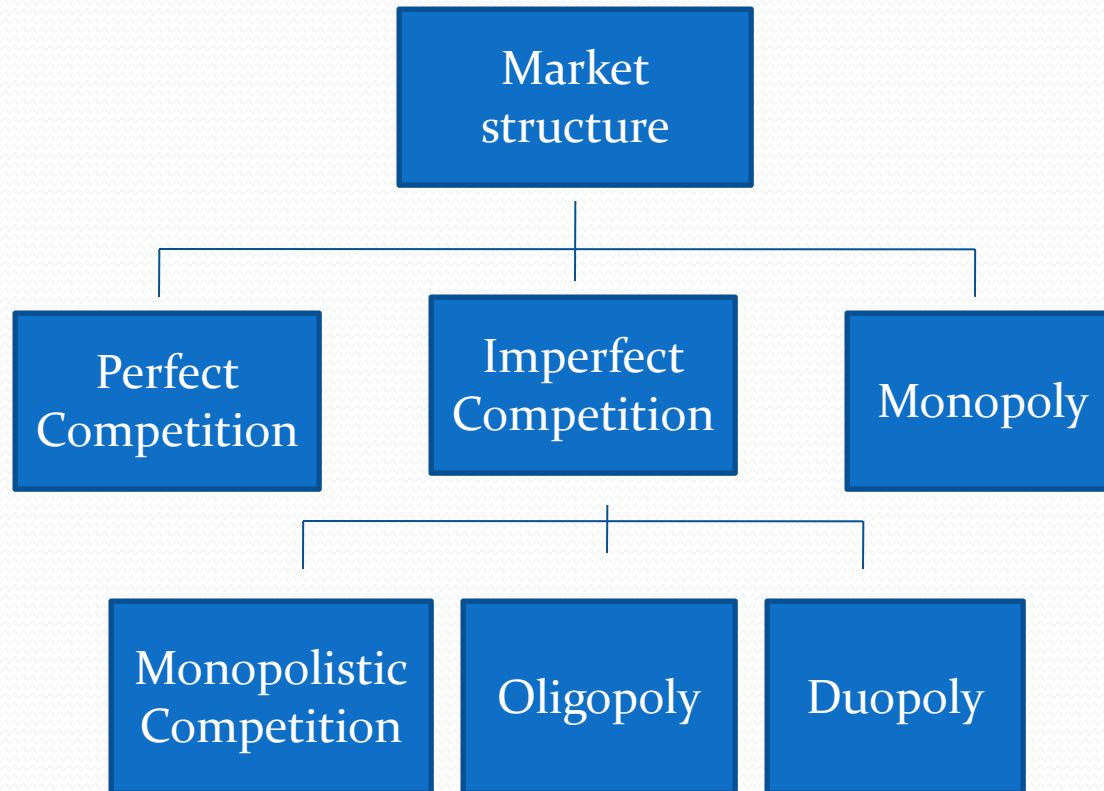
Features of market

- **A commodity:** the market must have a commodity. Without a commodity the existence of market is impossible.
- **Buyers & Sellers:** there must be the existence of buyers and sellers. Without them, market can not exists.
- **Competition:** there must be a competition among the buyers and sellers. Every sellers wishes to sell the commodity at higher price while the buyers wishes to buy at a low price

Market based on competition


- **Perfect Market-** Unlimited no of firms producing similar product (uncountable). Where there is Homogeneous products. Free Entry and exit from market of a firm. Perfect knowledge of market condition, and perfect mobility of factors of production.
- **Imperfect Market-** Limited markets producing different product (Countable). Where perfect competition is not in existence. Number of buyers and sellers are small. No perfect Knowledge of market conditions. There is no single price in this market.

Classification of Market





PERFECT COMPETITION

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- “A Perfect Competition is a market where there is large number of buyers and sellers of a homogeneous product without any restriction”.

Features of perfect competition

- Large number of buyers and sellers
- Homogeneous products
- Perfect knowledge
- Free entry and Exit
- Same price
- Price taker
- Profit maximization
- No govt. regulation
- Zero transportation cost
- Perfectly elastic demand curve

Features of perfect competition

- **Large number of buyers and sellers:** Under perfect competition, there exists a large number of sellers and the share of an individual seller is too small in the total market output. • As a result a single firm cannot influence the market price so that a firm under perfect competition is a price taker and not a price maker.
- **Homogenous Products :** Under perfect competition all firms sell homogenous goods which are identical in quantity, shape, size, colour, packaging etc. So the products are perfect substitutes of each other.
- **Free Entry And Free Exit :** Any firm can enter or leave the industry whenever its own wishes. There is no restriction for entry or exists.
- **Perfect Knowledge :** Both buyer and seller have full knowledge of the product. The buyers know what price prevails in different market of the same product.

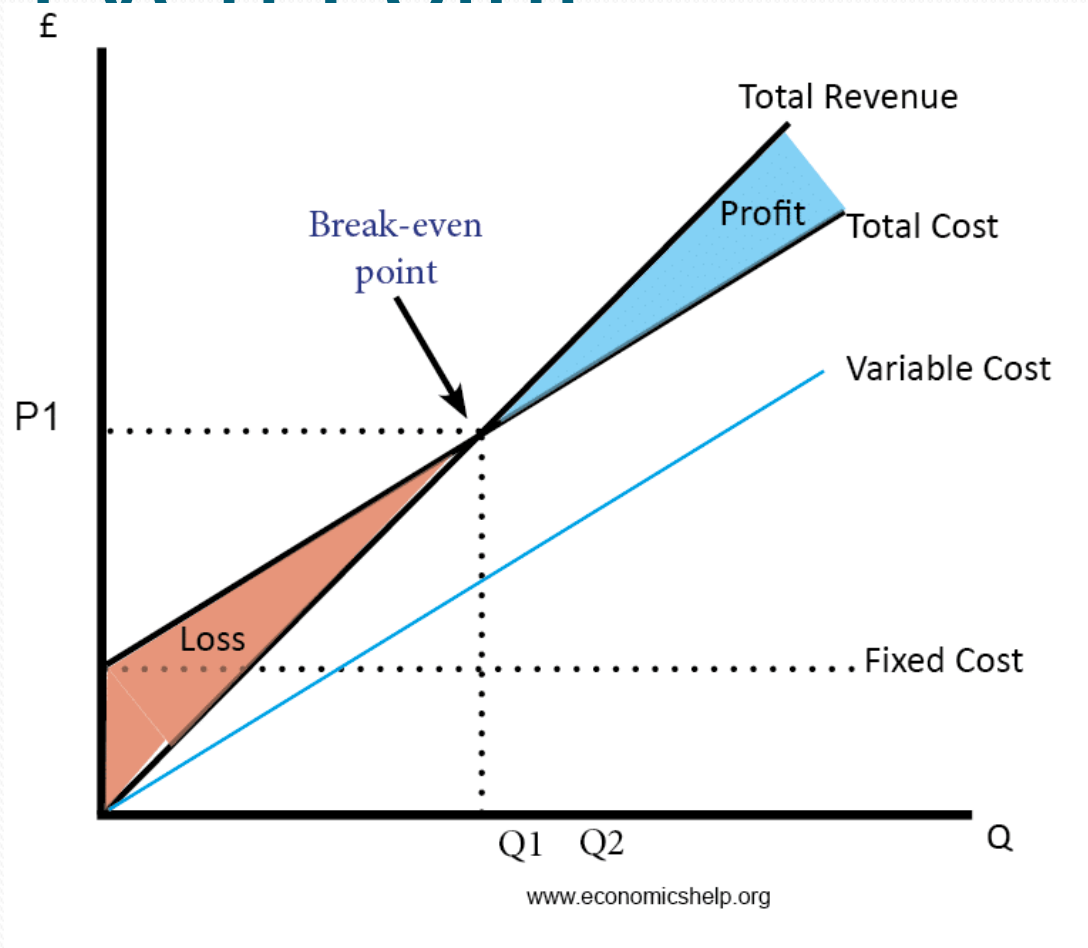
Features of perfect competition

- **Same Price:** same price is charged from the commodity sold in the market.
- **Price-Takers:** no change the price
- **Profit Maximization :-** The goal of all firms is maximization of profit.
- **No Government Regulation :-** There is no Government intervention in the market.
- **Perfect Mobility of Factors :-** Resources can move freely from one firm to another without any restriction.
- **Zero Transportation Cost:** Transport cost is zero. price of the product is not affected by the cost of transportation.
- **Perfectly Elastic Demand Curve:** demand curve horizontal which is equal to x-axis.

Firm's Equilibrium under Perfect Competition

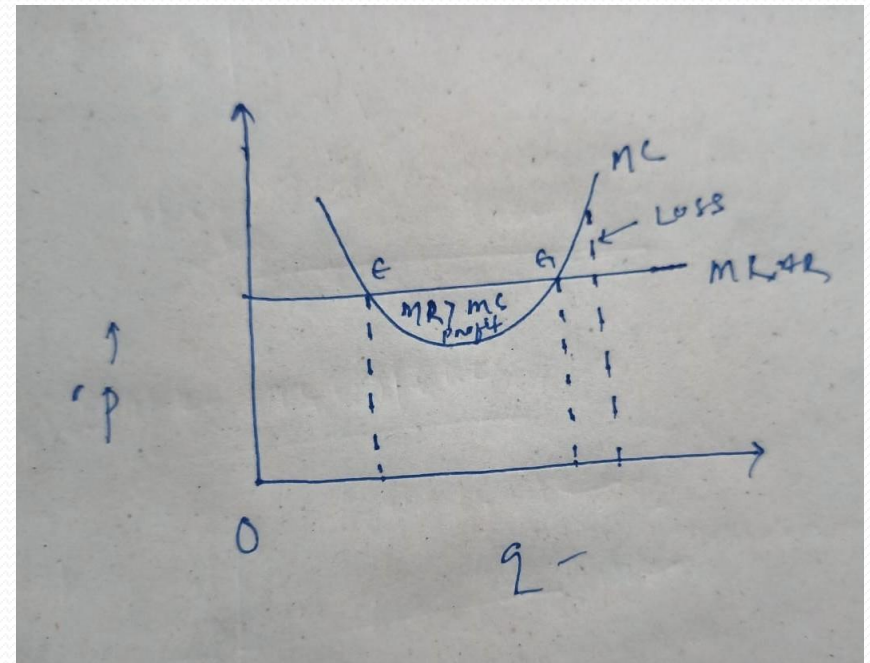
- There are 2 methods of equilibrium :-
 - i. TR and TC method (Break even point)
 - ii. MR and MC method

Break Even Point



Market equilibrium under Perfect competition

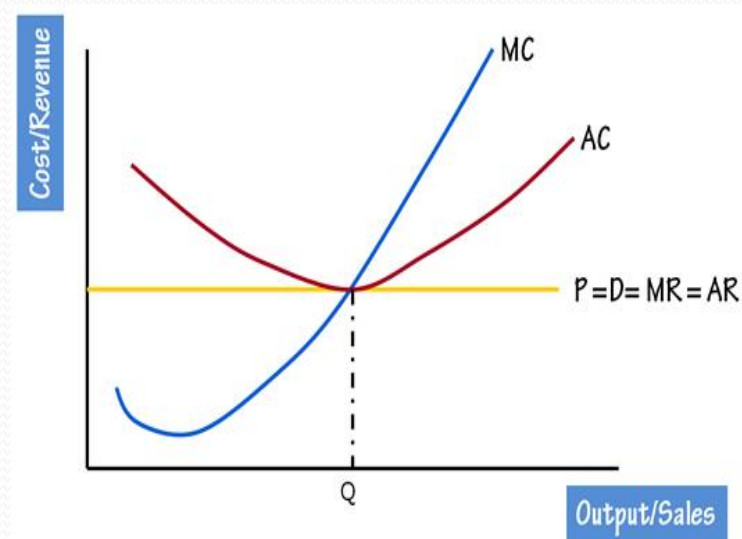
- Two condition of market
 1. $MC=MR$
 2. MC Cut MR, MC Rising



MR-MC Method (Short run)

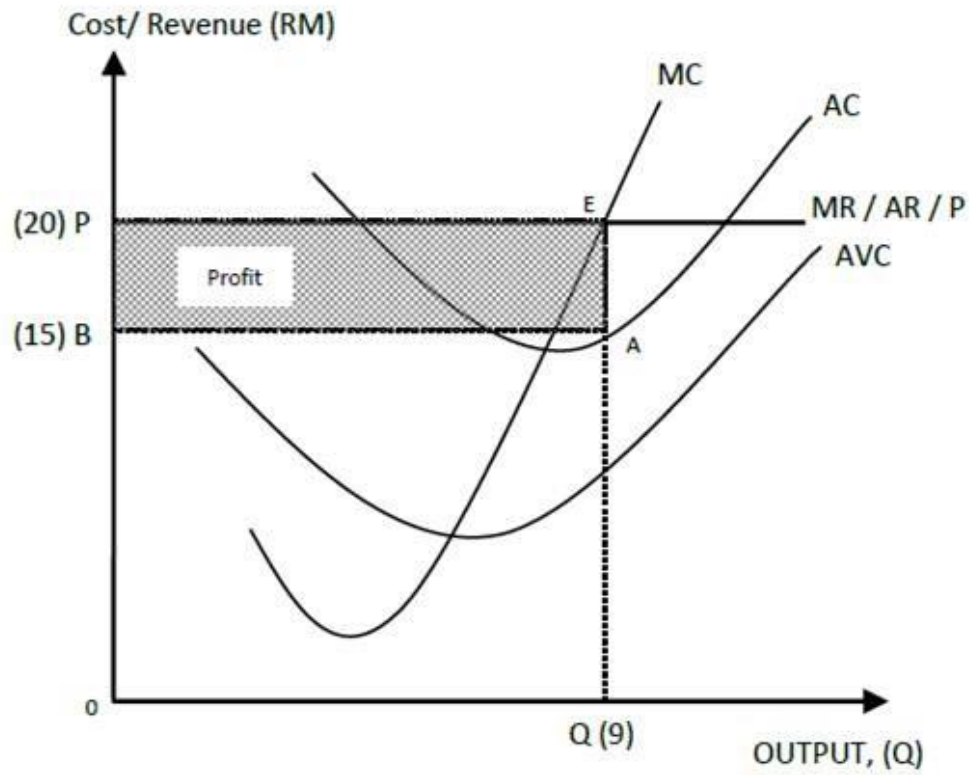
- 3 situation
- Normal profit ($AR=AC$)
- Super normal profit ($AR>AC$)
- Losses ($AR<AC$)

Normal Profit

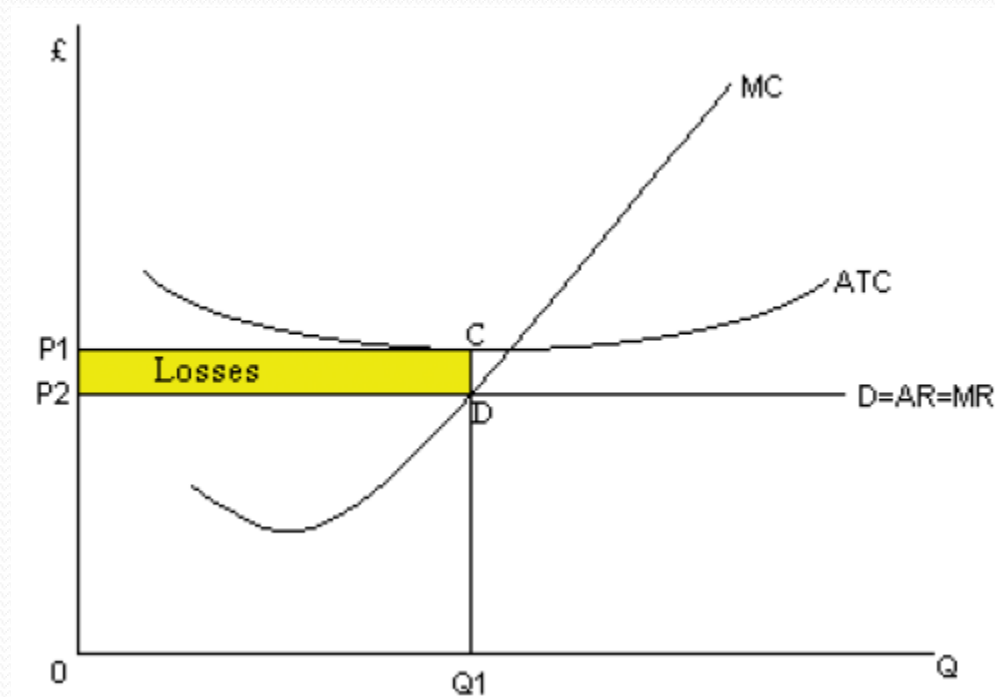


Supernormal Profit

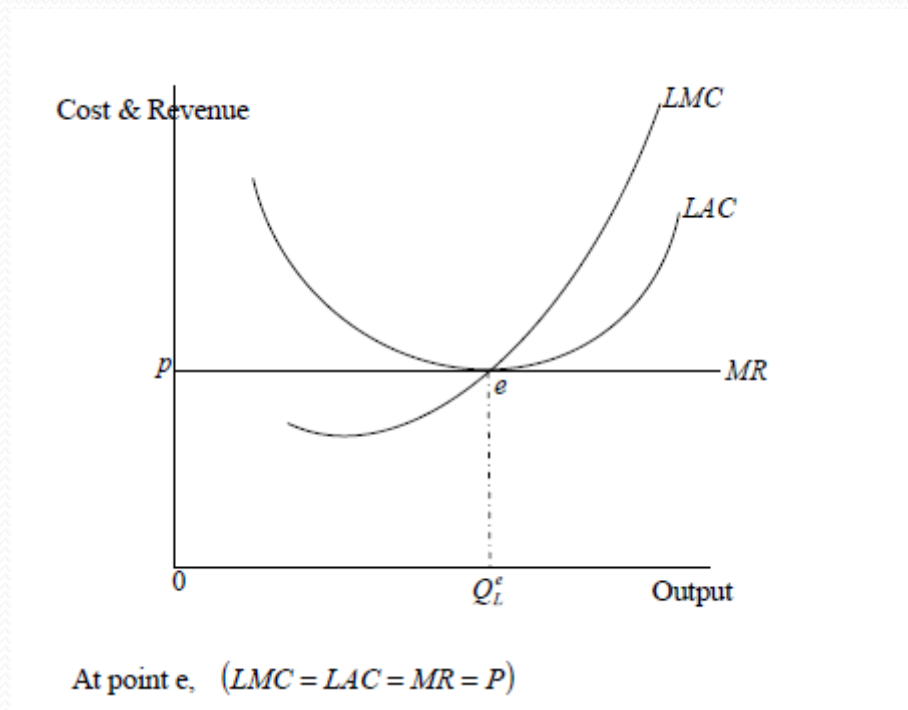
Supernormal Profit in Perfect Competition Market



Loss



MR-MC Method (Long run)



Thank you!

