Date

Economics

MODULE-4

Market

Market: An institution, organization, infrastructure or relationship where goods and services are exchanged.

"Market is that mechanism by which buyers and sellers are brought together."

• Elements/Features of market

1) Commodity.
2) Buyers and sellers
3) Competition
4) Place or area

* Markets based on competition

1) Perfect market
   ↳ unlimited no. of firms producing similar product

↳ Perfect knowledge of market condition and perfect mobility of factors of production.

② Imperfect Market

↳ limited markets producing different product

↳ no perfect knowledge of market conditions.

* Based on Geography

① Local Market

② Regional Market (broader than a local market)

③ National Market (national manufaction of goods/commodity)

④ International Market (b/w two or more countries)

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* Based on time of transaction
  1. Spot Market (transaction at current time period)
  2. Future market (transaction that takes place a future date)

* Based on nature of commodity
  1. Primary Markets (raw material goods)
  2. Secondary Markets (derivative goods)

Classification of market

Market Structure
- Perfect competition
- Imperfect Competition
  - Monopolistic competition
  - Oligopoly
  - Duopoly
- Monopoly

BERGER PROTECTON
PROTECTIVE COATINGS DIVISION

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Bilateral Monopoly : Monopoly from both sides; one seller and one buyer.

* Forms of market

FORMS OF MARKET	NO. OF FIRMS	NATURE OF COMMODITY	PRICE ELASTICITY
1) Perfect competition (perfectly competitive market)	Large	Homogenous (sold by all the firms)	∞
2) Monopoly (single seller, large no. of buyers)	One	unique without close substitute	very low
3) Monopolistic (both perfect & monopoly)	large (large sellers selling different products)	Different products	High
4) Pure oligopoly	Few	Homogenous	Low

Oligopoly: Market characterized by a small no. of firms who realize they are independent in pricing.

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5) Differentiated Oligopoly	Few	Different products	Know

Duopoly monopoly: Market structure where there are two sellers but large no. of buyers.

- Perfect Competition
  - A market where there is large no. of buyers and sellers of a homogenous product without any restriction.

→ features
- large no. of buyers & sellers
- homogenous products
- perfect knowledge

Total revenue: Sum total of earning by selling a particular commodity fully acted to the given price
$= P \times Q$

↳ profit maximization

↳ No government regulation

* Firm Equilibrium

↳ Point where the firm is nowhere to change its output level.

→ Methods of calculating firm eqm.

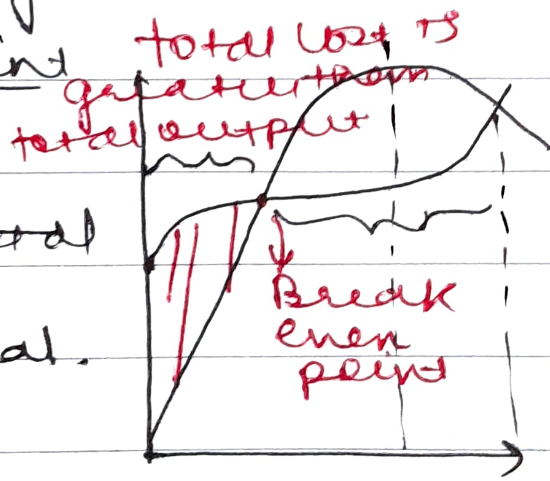
(1) Total Revenue & Total cost method (TR & TC)

(2) Marginal cost & Marginal Revenue (MC & MR)

→ Profit maximising condition

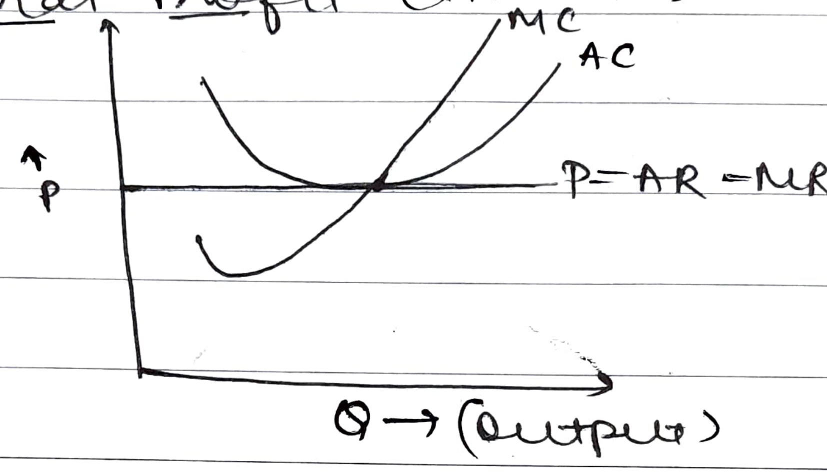
• Break-even point

↳ Point at which total cost and total revenue are equal.

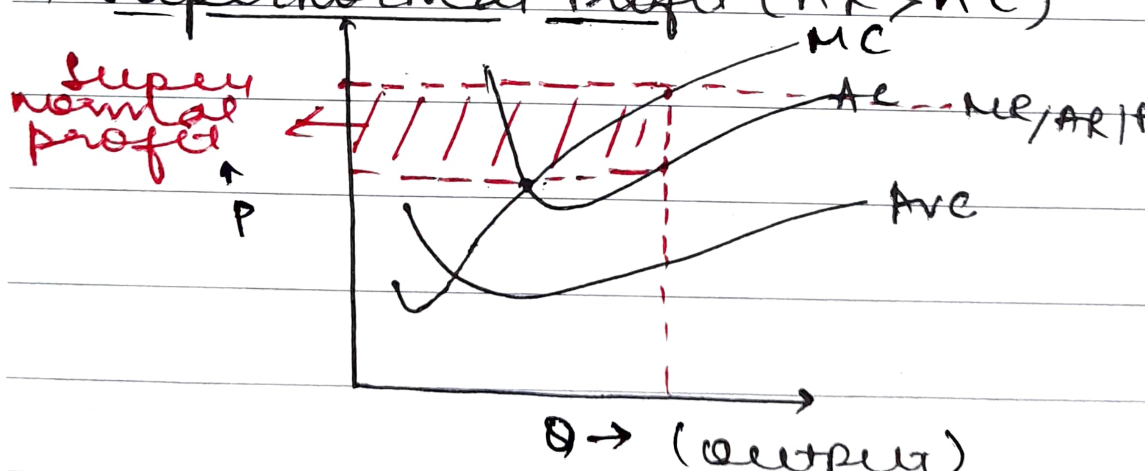


* Short Run [MR = MC method]

1) Normal Profit (AR = AC)



2) Supernormal Profit (AR > AC)



MC = MR } necessary

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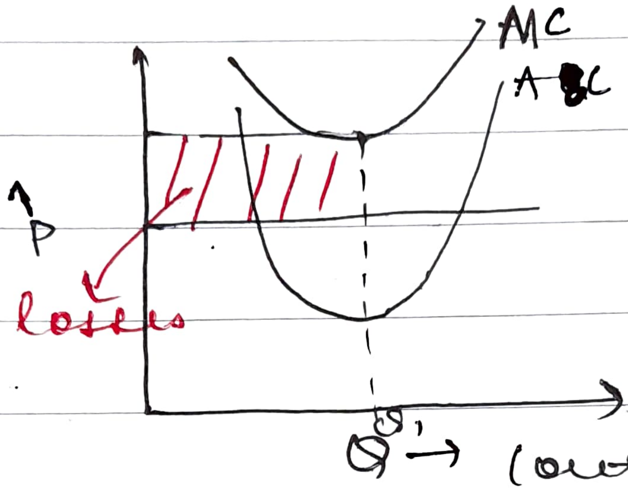
c) Losses (AR < AC)



→ sufficient methods
↳ MC must be rising
↳ slope of MC > slope of MR

Average profit × no. of quantity output = total profit (Tπ)

AR−AC → Avg. profit per unit of output produced and sold.

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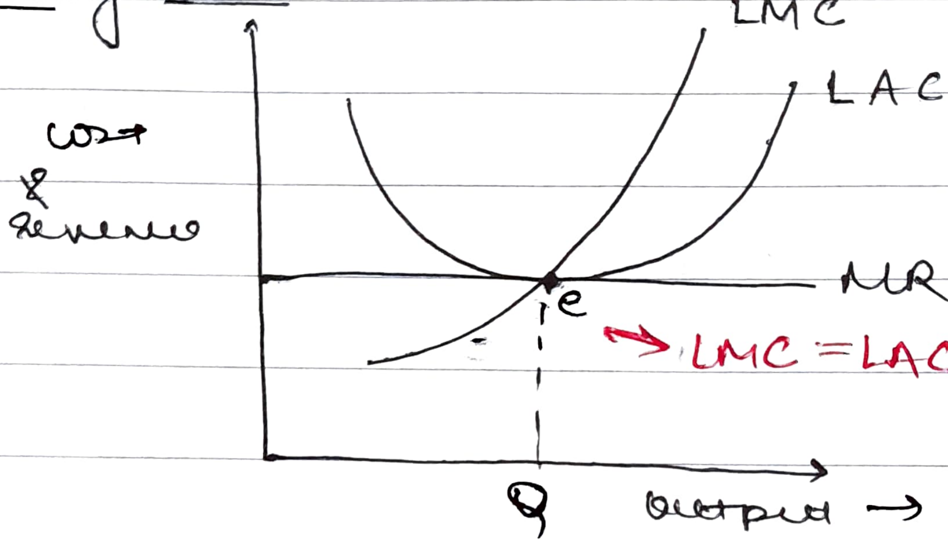
* Long run



→ LMC = LAC = MR = P

* Monopoly Market

Monopoly
mono – single
poly – seller

↳ form of market organization in which there is only one seller of the commodity.

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- **Features / Assumptions of Monopoly**

↳ One seller and large no. of buyers

↳ Restrictions on the entry of new firms

↳ no close substitutes

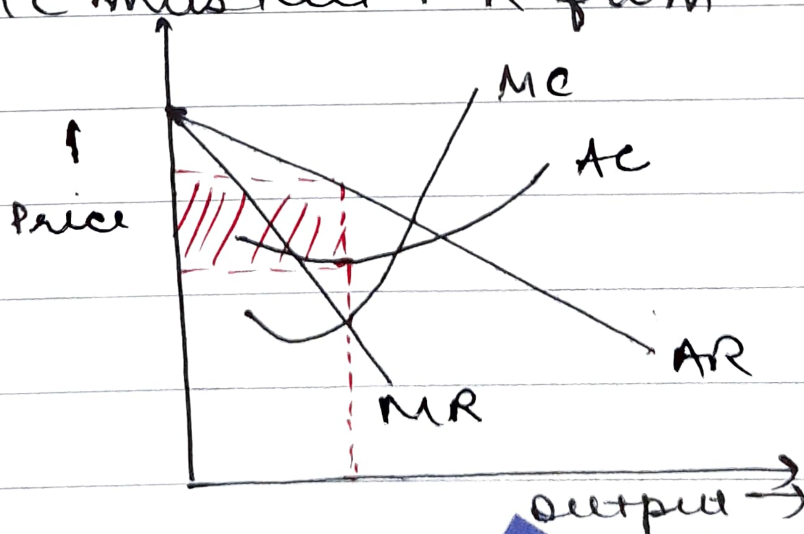
↳ downward sloping demand curve.

→ **equilibrium & price determination**

↳ eq^m when he produces that much amount of output which yields maximum total profit.

↳ MR = MC

↳ MC must cut MR from below.



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→ Firm's short-run equilibrium

1. Normal Profits: $AC = AR$
2. Super-normal Profits: $AC < AR$
3. Incure Losses: $AC > AR$

① Normal Profit

↳ when the avg. cost of production is equal to the average revenue for the corresponding output.

$AC = AR$

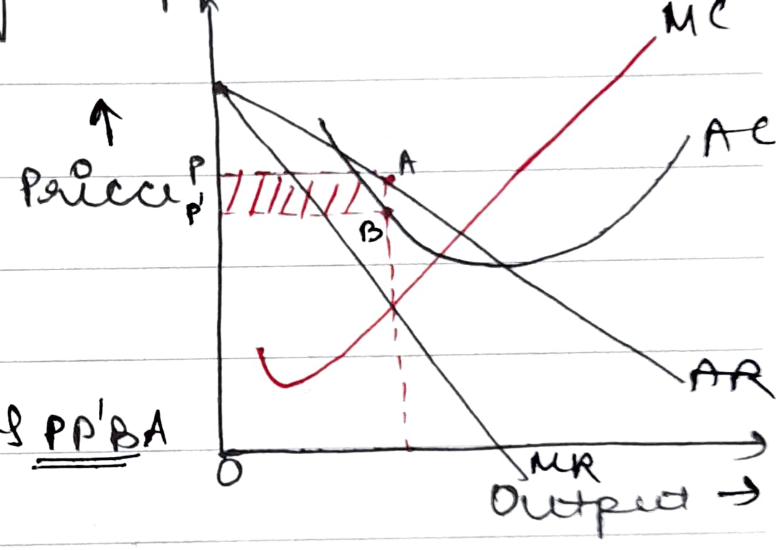
NORMAL PROFITS

(2) Super Normal Profit

↳ When the avg. cost of production is less than the avg. revenue for the corresponding output.

AC < AR

Total profit earned by the monopolistic is PP'BA



(3) Losses

↳ avg. cost of production is higher than the avg. revenues of the corresponding output.

AC > AR

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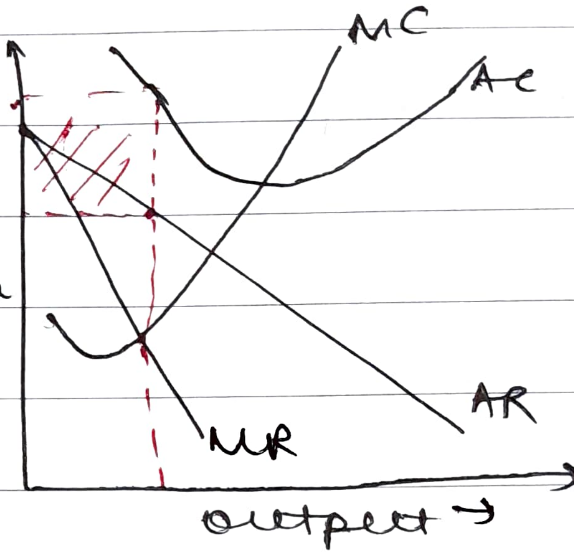
↳ The firm is incurring an avg. loss of PP' & the price total loss of PP'BA.



→ Difference b/w perfect competition & monopoly

PERFECT COMPETITION	MONOPOLY
↳ Unlimited no. of firms producing similar product	↳ Single producer & large buyers
↳ Perfect knowledge both buyers & sellers	↳ Lack of knowledge
↳ Free entry & exits	↳ No close substitutes

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↳ normal profit	↳ strong entry
↳ price taker or acceptors	↳ strong product
↳ Homogenous in nature	↳ Price maker
↳ AR & MR are horizontal curve	↳ Demand curve downward sloping curve.

* Baumol's Theory of Sales Revenue Maximisation

According to Baumol, "The sales maximization goal says that managers of firms seek to maximization their sales revenue subject to the constraint

Primary : Sales maximization objective

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(i) of earning a satisfactory profit.
↳ producing more keeping low price & advertisement.

→ Assumption

1) single time period
2) oligopoly firm
3) Sales maximization objective
4) Cost curved U-shaped
5) maximum profit constraint determined
6) Demand curve downwards
7) minimum profit constraint determined

→ graph analysis

1) TC & TR are used for profit maximization
2) TR still rising

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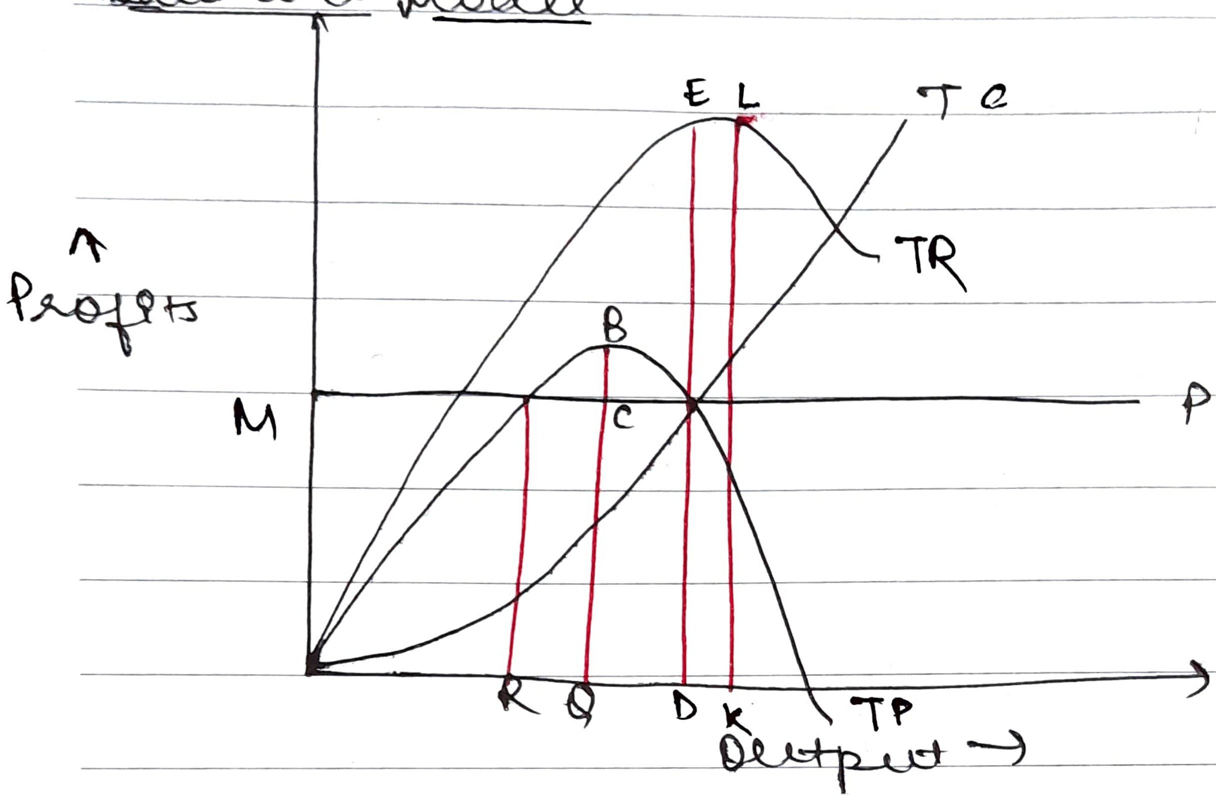
Baumol's Model



③ MP → profit constraint ; maintained by producers.

④ Point E → maximum sales
Point C → profit constraint maintained by producers.

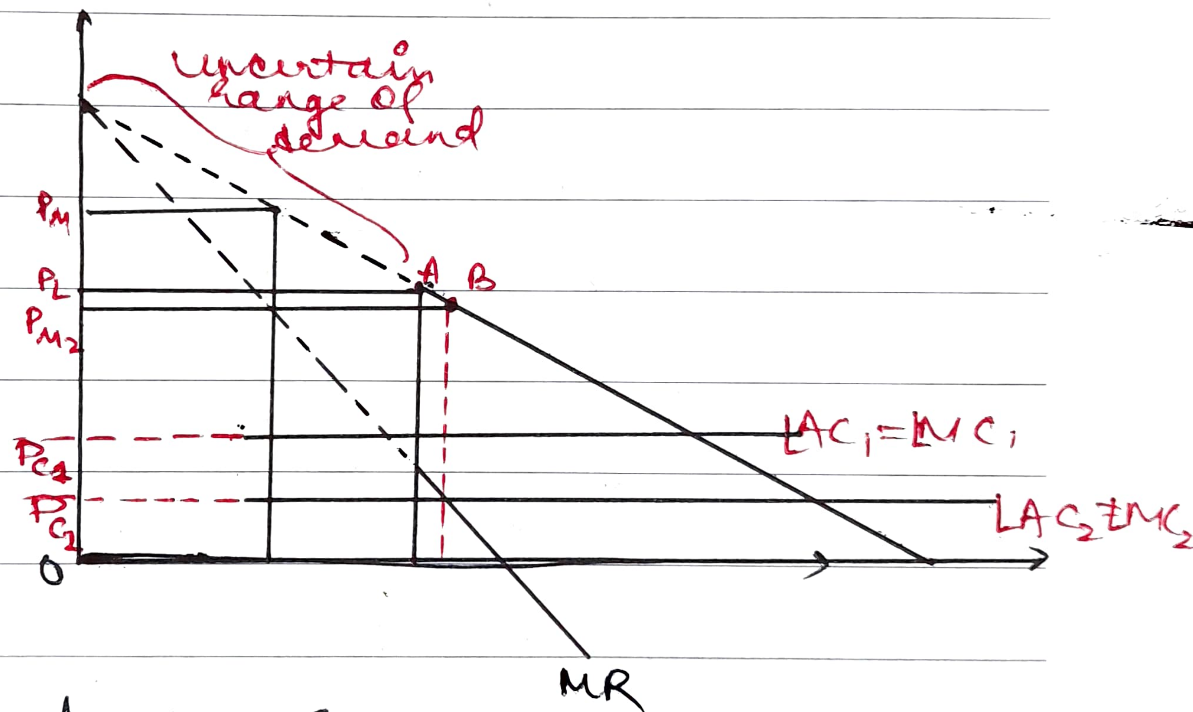
* **Bain's Limit Pricing Theory**

According to Bain, firms over a long period of time were keeping their price at a level of demand where the elasticity was below unity, i.e., they did not charge the price which would maximize their revenue.

→ **Assumptions**

1. Oligopoly with price leader.
2. Firm types: Small, medium and large firm
3. There is effective collusion among the established oligopolists
4. The established firms can compute a limit price, below which entry will not occur.

5. economies of scale: small firms have high AC, large firms have lower AC.
6. large firm is the price leadership which is followed by small firms.



• <u>Graph Analysis</u>

→ AR and MR curve are downward sloping.

→ LAC = LMC

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↳ Monopoly price is fixed at the elastic part of the demand curve

↳ monopoly firm makes large abnormal profit.

↳ They earn some abnormal profits, but not maximum profits.

↳ Oligopoly market remains stable