

# CA Foundation – June 2023

Business Economics & BCK by MVSIR

## Economics Chapter 4

Price Determination in Different Markets

### Last Minute Summary

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Covers all IMP Points in just

**12 Pages**



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## Economics Chapter 4 – Price Determination in Different Markets

## UNIT 1 – MEANING AND TYPES OF MARKETS

❖ From where does the concept of price arises ?

- \_\_\_\_\_ - These goods are free or **have zero prices**. They are \_\_\_\_\_ **in supply** thus **do not have scarcity**. Example: air, sunlight etc
- \_\_\_\_\_ - They are **scarce** in relation to their demand and have an **opportunity cost**. They are **exchangeable in the market** and command a **price** Eg clothes, mobile phone etc
- \_\_\_\_\_ signifies the **quantity of money necessary to acquire a good** or service. It is **money-value** → purchasing power expressed in terms of money.
- **Value in exchange** or **exchange value**, according to **Ricardo**, means **command over commodities** or **power in exchange** over purchasable goods in general.

❖ 'Value in Use' and 'Value in Exchange'

- **Value in use** refers to **usefulness or utility** i.e, attribute which a thing has to satisfy human needs
- **Value in exchange** or **economic value** is **amount of goods** and services which we may obtained in market **in exchange** of a particular thing. (Given by \_\_\_\_\_)
- In Economics, we are **only concerned with** \_\_\_\_\_. Considerations such as **sentimental value** is **not considered** in market economy, as it is subjective.

❖ Meaning of Market

- Exchange value is determined in the **market** where exchange of goods and services takes place
- A market is a **collection of \_\_\_\_\_ and \_\_\_\_\_** with the **potential to trade**.
- A market **need \_\_\_\_\_ be formal** or held in a particular place. Eg- 2<sup>nd</sup> hand goods are often sold through listing it in an online websites. (OLX, Quikr etc)
- **Elements of Markets**
  - 1) \_\_\_\_\_ and \_\_\_\_\_;
  - 2) A **product** or service;
  - 3) \_\_\_\_\_ for a price;
  - 4) **Knowledge** about market conditions; (rational buyers & sellers) and
  - 5) \_\_\_\_\_ **price** for a product/service at a given time.

❖ Classification of Markets➤ I) General Classification

- a) \_\_\_\_\_ - Market in which **firms buy the resources (inputs) to produce G/S**. They **allocate productive resources to producers**. Prices in factor markets - **factor prices**.
- b) \_\_\_\_\_ - Markets in which **households buy G/S they want from firms**. They **allocate goods to consumers**.

➤ II) Geographical Area Classification

- a) \_\_\_\_\_ - Here buyers and sellers are **limited to a local area or region**, **Highly \_\_\_\_\_ goods & bulky articles**, (transport of over long distance is uneconomical) are sold here.  
Also it is **limited to a particular locality**.  
Eg- locally supplied services - **hair dressers & retailers**.

❖ **Classification of Markets**➤ **II) Geographical Area Classification**

- b) \_\_\_\_\_ Market – They cover a **wider area** such as a **few adjacent cities, parts of states etc.**  
Eg- **Mekhela Chador** (Assamese Saree), Yewle Tea etc.
- c) \_\_\_\_\_ Market – When **demand** is **limited to national boundaries of a country**. The **trade policy** of government **may restrict trading** of a commodity to within country.  
Eg- **Hindi books** – national markets in India.
- d) \_\_\_\_\_ Market – **High value & small bulk** commodities are demanded and traded internationally.  
Eg- **Gold** and **Silver**.

Above classification has become \_\_\_\_\_ as in modern days even perishable goods have international market.

➤ **III) Regulation**

- a) \_\_\_\_\_ Market – Here **transactions are statutorily regulated**, to put an end to unfair practices. Eg. Stock exchange
- b) \_\_\_\_\_ Market – Aka. free market – **no stipulations on transactions**. Eg- Weekly (Haat) Baazaars.

➤ **IV) Time**

\_\_\_\_\_ conceived the '**Time**' element in markets

- a) **Very Short Period Market** – Aka. **Market period** – here **supply is \_\_\_\_\_** – **cannot be increased or decreased**.  
**Eg- perishable goods**- vegetables,, fish, milk, etc  
Since **supply** is **fixed**, very short period **price is dependent on \_\_\_\_\_**.
- b) **Short Period Market** – **Slightly longer than very short period**. Here, **supply** can be **moderately adjusted**.
- c) **Long-period Market** – In long period, **all factors become variable** and **supply** can be **fully adjusted to changes in demand** by **altering scale of production**. The **interaction** between **long run supply and demand** determines **long run equilibrium price** or '**normal price**'.
- d) **Very long-period Market** – Aka. \_\_\_\_\_ period

➤ **V) Nature of Transaction**

- a) \_\_\_\_\_ or **Cash Market**- Goods are exchanged for **money payable** either **immediately** or within **short span of time**
- b) \_\_\_\_\_ or **Future Market**- Transactions involve contracts with a **promise to pay and deliver** goods **at some future date**

➤ **VI) Volume of Business**

- a) \_\_\_\_\_ Market- Goods are sold in \_\_\_\_\_ or **large quantities**. Transactions **between \_\_\_\_\_** (B2B)
- b) \_\_\_\_\_ Market- Goods are sold in \_\_\_\_\_ quantities. This is the market **for ultimate \_\_\_\_\_** (B2C)

For notes of other topics refer **Super Chart Book & MCQ Compiler book** of CA Mohnish Vora (MVSIR). [Click here for virtual library.](#)

❖ **Classification of Markets**

➤ **VII) Competition**

Assumptions	Market Types			
	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
Number of Sellers	Very Large	Large	Small Numbers	One
Product Differentiation	None	Slight	None to substantial	
Price Elasticity of Demand of firm		Large	Small	Small
Degree of control over price	None	Some	Some	Very Considerable

❖ **Concepts of TR, AR & MR**

**I) Total Revenue (TR)**

➤ **Amount** of money which a **firm realises by selling a commodity**. [  $TR = \underline{\hspace{2cm}}$  ]

**II) Average Revenue (AR)**

➤ AR is **revenue earned per unit of output**.

➤  $AR = Price = \underline{\hspace{2cm}}$

➤ Also, **AR curve =                      Curve** of firm

**III) Marginal Revenue (MR)**

➤ MR is **change in TR resulting from sale of an additional unit of commodity**.

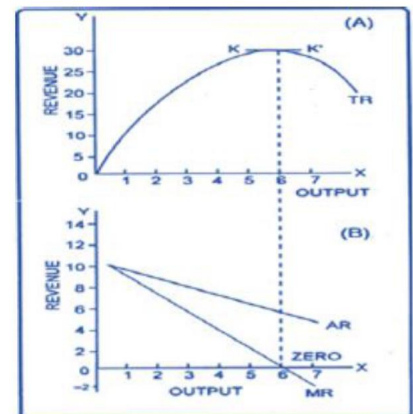
➤ MR is            of TR

$MR = \underline{\hspace{2cm}}$  or  $MR_n = TR_n - TR_{n-1}$  or  $MR = dTR / dQ$

**AR = Price** → Happens in                      of market  
**AR = Price = MR** → ONLY in                     

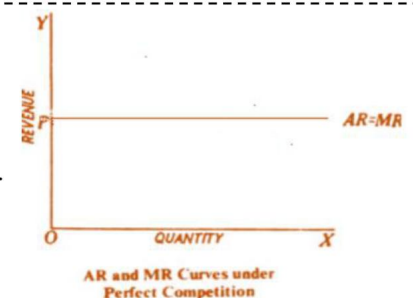
❖ **TR, AR & MR in Imperfect Competition**

- AR curve slopes downwards → AR (Price) is **falling** → inverse relationship between price & qty dem
- **MR < AR** → MR declines            rapidly than AR → because any reduction in price **applies to        units sold**.
- TR            when MR is +ve & TR            when MR is -ve
- TR initially increases at            rate due to diminishing MR & reaches maximum & then it falls. (           shaped)
- When MR (Slope of TR) =           , TR = maximum



❖ **TR, AR & MR in Perfect Competition**

- **Constant average revenue** (or price) schedule
- $AR = Price = \underline{\hspace{2cm}}$
- AR Curve =            Curve = MR Curve → Horizontal straight line parallel to X axis →            demand ( $E_p = \infty$ )
- TR will be            straight line



❖ Relationship → AR, MR, TR & Price Elasticity of Demand

$MR = AR \times \underline{\hspace{2cm}}$  OR  $MR = AR \times \underline{\hspace{2cm}}$

Portion of Demand Curve	Value of e	MR	TR
Mid Point	$e = 1$		
Upper	$e > 1$		
Lower	$e < 1$		

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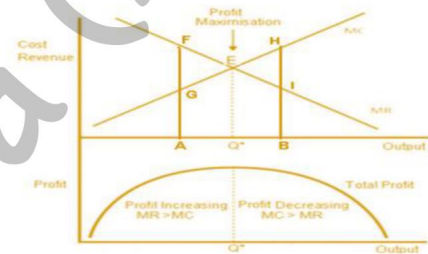
❖ Behavioural Principles

**Principle 1**

- A firm should **produce** at all if its **total costs** are **not met** ( $TR \leq TVC$ )
- **When  $AR = \underline{\hspace{2cm}}$  → Shutdown point**
- Shutting down is **\_\_\_\_\_** & does not mean going out of business.
- **At shut down point :**
  - Price is equal to \_\_\_\_\_
  - $TR = \underline{\hspace{2cm}}$
  - Total loss = \_\_\_\_\_

**Principle 2**

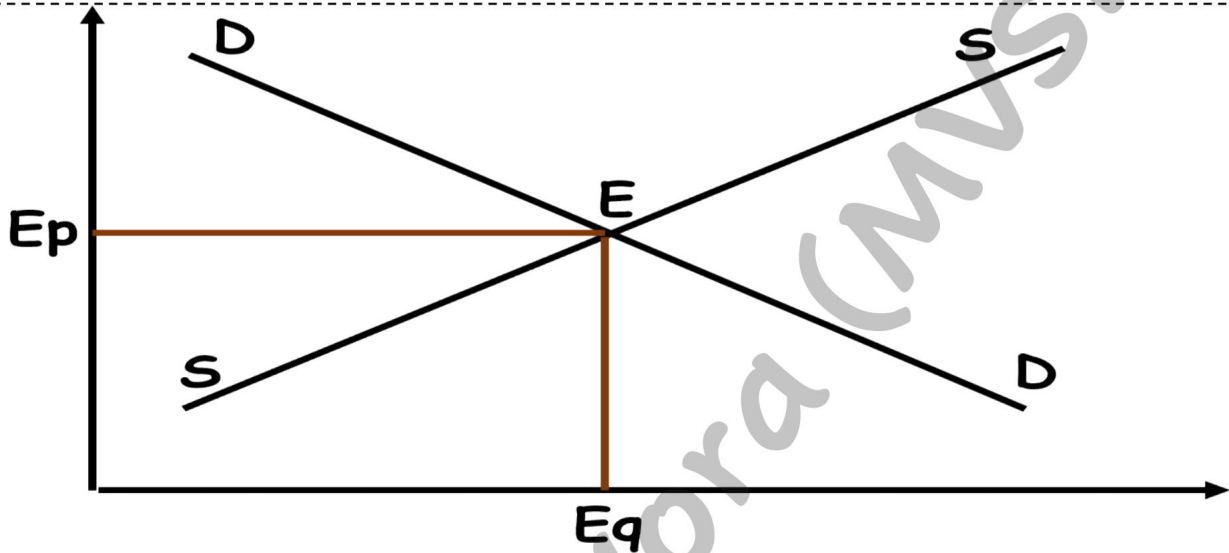
A firm will **maximum profits** (or minimize losses) at \_\_\_\_\_



**UNIT 2 – MEANING AND TYPES OF MARKETS**

S. No	Situation	Effect	Diagram
1.	Mkt Price > Equi Price i.e., $Q_s > Q_d$ (Surplus)	Pressure on Price  Qty Supplied decreases & Qty Demanded increases  Upto Equilibrium	
2.	Mkt Price < Equi Price i.e., $Q_s < Q_d$ (Shortage)	Pressure on Price  Qty Supplied increases & Qty Demanded decreases  Upto Equilibrium	

S. No.	Situation	Effect	
		Equi Price	Equi Qty
3.	Increase in Demand	Increase	
4.	Decrease in Demand	Decrease	
5.	Increase in Supply		Increase
6.	Decrease in Supply	Increase	



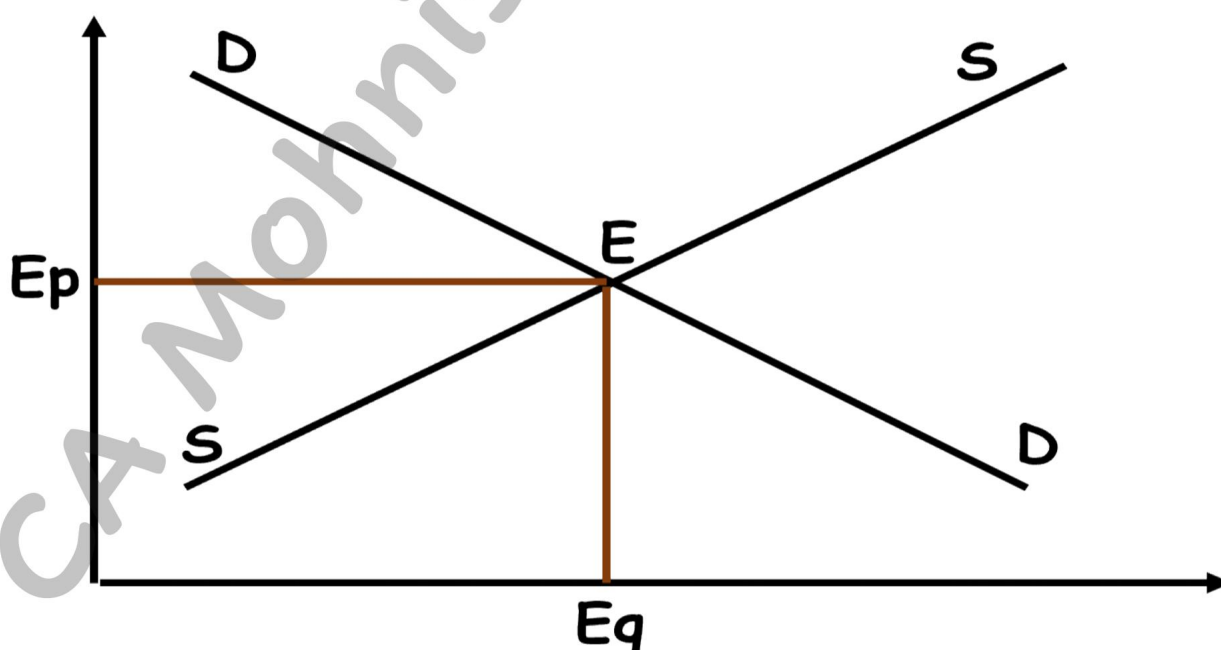
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S. No.	Situation	Effect	
		Equi Price	Equi Qty
7.	Increase in Demand is equal to Increase in Supply		Increase
8.	Increase in Demand is greater than Increase in Supply		Increase
9.	Increase in Demand is less than Increase in Supply		Increase
10.	Decrease in Demand is equal to Decrease in Supply		Decrease
11.	Decrease in Demand is greater than Decrease in Supply		Decrease
12.	Decrease in Demand is less than Decrease in Supply		Decrease

- When **both demand & supply increase**, but no other data given → then **EQ \_\_\_\_\_**, but effect on EP cannot be determined
- Similarly, when **both demand & supply decrease**, but no other data given → then **EQ \_\_\_\_\_**, but effect on EP cannot be determined

S. No.	Situation	Effect	
		Equi Price	Equi Qty
13.	Increase in Demand is equal to Decrease in Supply	Increases	
14.	Increase in Demand is greater than Decrease in Supply	Increases	
15.	Increase in Demand is less than Decrease in Supply	Increases	
16.	Decrease in Demand is equal to Increase in Supply	Decreases	
17.	Decrease in Demand is less than Increase in Supply	Decreases	
18.	Decrease in Demand is greater than Increase in Supply	Decreases	

- When **demand incr & supply decr** → **EP \_\_\_\_\_** but effect on EQ cannot be determined
- When **demand decr & supply incr** → **EP \_\_\_\_\_** but effect on EQ cannot be determined



**UNIT 3 – PRICE OUTPUT DETERMINATION UNDER DIFFERENT MARKET FORMS**

❖ **Market structure** → the way sellers & buyers interact to determine equilibrium price & quantity. It determines a firm's power to fix price of its product. [Bargaining Power]

❖ **I) Perfect Competition**

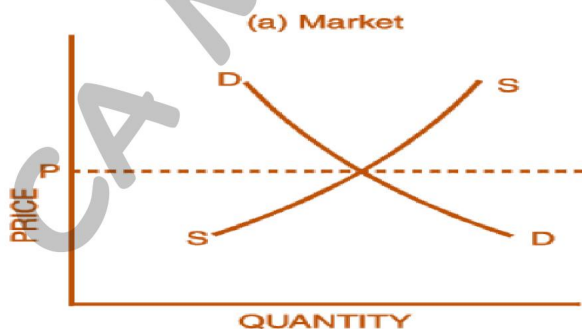
Features / Characteristics of Perfect Competition		
1	_____ number of buyers and sellers	➤ Share of <b>each seller &amp; buyer</b> in market → is too small → _____ to influence price, demand or supply
2	_____ or Identical Products	➤ _____ substitutes ➤ Buyers have _____ preference between different sellers and different units of goods
3	_____ Entry & Exit	➤ _____ legal or market related barriers to entry & <b>no special costs</b> to enter an industry.
Above 3 characteristics are conditions for _____ competition		
4	Perfect knowledge of market condition	➤ Both <b>buyers and sellers have all information</b> relevant to their decision to buy or sell
5	Very _____ transaction costs	➤ Buyers and sellers <b>do not have to spend much time and money</b> finding each other ➤ _____ advertisement required.
6	All firms individually are price _____	➤ Firms _____ price determined by market forces ➤ Price taking <b>applies to consumers</b> as well ➤ There is <b>perfect knowledge &amp; perfect mobility</b> , if any seller raises his price, he would <b>lose his customers</b> .

➤ Perfect comp is a \_\_\_\_\_. Eg- **agricultural products**, financial instruments (**stock, bonds, foreign exchange**), precious metals (gold, silver, platinum) the above examples **approach the condition of perfect competition**

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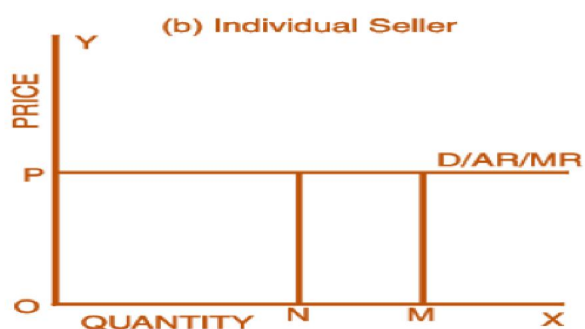
**Equilibrium of PC Industry in Short Run**

- **Industry** → large number of independent firms in similar business
- When **total output (Mkt supply) of industry is equal to total demand (Mkt Demand)** → industry is in **equilibrium** in short run



**Equilibrium of PC Firm**

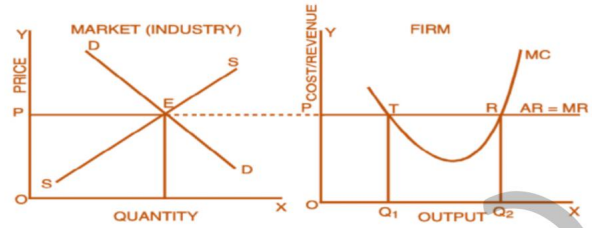
- Firm is in equilibrium → \_\_\_\_\_ its profit.
- **Output which gives maximum profit** to the firm is called **equilibrium output**. In the equilibrium state, the firm has **no incentive** either to **increase or decrease its output**.
- PC Firms are **price-takers**. They **have to accept price determined by market forces**.
- Demand curve of each PC firm is **perfectly (or infinitely) elastic**
- In PC firm, \_\_\_\_\_ has identical shape of firm's **supply curve**.





**Conditions for Equilibrium of PC Firm in Short Run**

- 1<sup>st</sup> order condition → \_\_\_\_\_
- 2<sup>nd</sup> order condition → **MC curve** should **cut MR curve from \_\_\_\_\_** (MC → \_\_\_\_\_ slope)

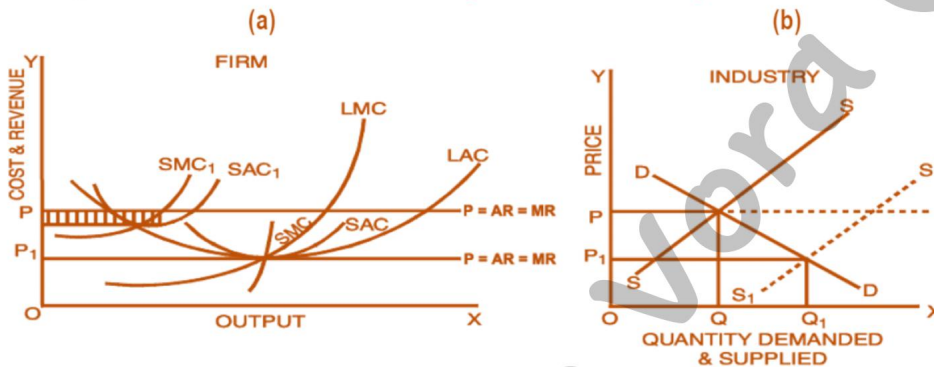


- ❖ A PC firm can in short run-
  - ❑ **Normal Profit** → \_\_\_\_\_ or
  - ❑ **Super Normal Profit** → \_\_\_\_\_ or
  - ❑ **Losses** → \_\_\_\_\_

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**Equilibrium of PC Firm in Long Run**

- In long run → firms can alter scale of operation & freely enter/exit PC industry.
- PC firms are in **long run equilibrium** → when they have **adjusted their plant to produce at \_\_\_\_\_ of their LAC curve**, which is **tangent to the demand curve** defined by the market price.
- In **long run**, all PC firms → **earn just \_\_\_\_\_ profits**, which are included in the ATC.



- The **condition** for **long run equilibrium of PC firm** is that **MC = Price (AR) and MC = LAC**
- At equilibrium, **SMC = LMC = SAC = LAC = P = MR**

**Equilibrium of PC Industry in Long Run**

- ❖ **Three conditions:**
  - 1) **All firms** in industry are in \_\_\_\_\_ (**maximizing profit**)
  - 2) \_\_\_\_\_ has \_\_\_\_\_ either to **enter / exit** → **all firms are earn normal profit**
  - 3) \_\_\_\_\_ is such that **mkt supply = mkt demand**
- ❖ A firm producing output at optimum cost (min pt of LAC) → **optimum firm**. In long run, **all PC firms** are **optimum firms** having **optimum size**
- ❖ Thus, under PC, in long run → market mechanism leads to **optimal allocation of resources** which is shown by-
  - (a) Output is produced at **minimum feasible cost**.
  - (b) Consumers pay minimum possible price → \_\_\_\_\_
  - (c) Plants used at full capacity → no wastage of resources i.e. \_\_\_\_\_
  - (d) Firms earn **only normal profits** i.e. \_\_\_\_\_
  - (e) Firms **maximize profits** (i.e. \_\_\_\_\_), but level of profits → normal.
  - (f) There is **optimum number of firms** in the industry.
- ❖ In other words, in the long run, **LAR = LMR = P = LMC = LAC** → optimum allocation of resources.

❖ **II) Monopoly**

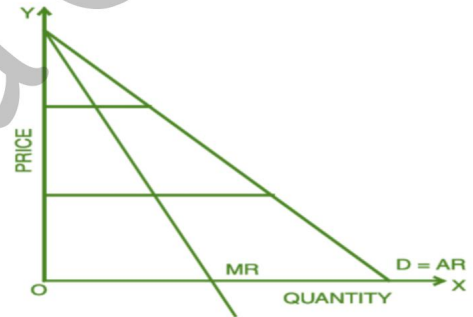
- 'Monopoly' = "alone to sell" → single seller of product which has no close substitute.
- Pure monopoly is never found in practice. However, in public utilities such as transport, water & electricity, we may find monopoly market.

❖ **Features of Monopoly**

1	Single seller of product	<ul style="list-style-type: none"> <li>• Only one firm producing or supplying a product.</li> <li>• <u>no</u> distinction between firm and industry (absence of competition)</li> </ul>
2	Barriers to Entry	<ul style="list-style-type: none"> <li>• Strong barriers to entry which could be economic, institutional, legal or artificial.</li> </ul>
3		<ul style="list-style-type: none"> <li>• Monopoly firm has ability to charge a price above MC and earn a positive profit (AR &gt; MC)</li> </ul>
4	<u>no</u> close substitutes	<ul style="list-style-type: none"> <li>• Monopoly firm has control over market supply (price maker)</li> <li>• Sells a product which has no close substitutes.</li> <li>• Cross elasticity of demand = _____</li> <li>• Price elasticity of demand is _____ 1.</li> <li>• Steep downward sloping demand curve.</li> </ul>

❖ **Monopolist's Revenue Curves**

- AR & MR both are \_\_\_\_\_ sloping curves.
- Slope of \_\_\_\_\_ = 2 x Slope of \_\_\_\_\_
- MR curve lies half-way between AR curve & Y axis. i.e. it cuts horizontal line between Y axis & AR into \_\_\_\_\_ parts
- AR \_\_\_\_\_ be zero, but MR can be zero or even negative.



❖ **Monopolies are mainly of two types**

1) \_\_\_\_\_ monopoly

Here the monopolist charges \_\_\_\_\_ price from all buyers  
For eg, Indian Railways charging same fare from all AC 3Tier passengers

2) \_\_\_\_\_ monopoly

Monopolist charges \_\_\_\_\_ prices  

- from different groups of consumers
- for different uses
- at different places

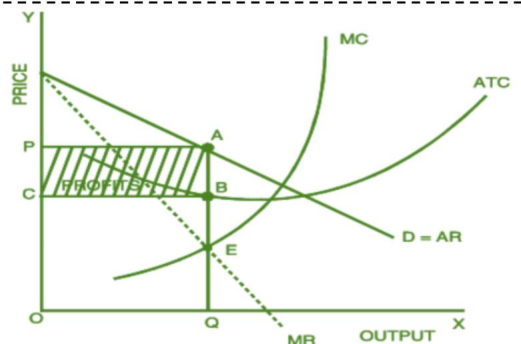
 For eg. Dynamic fare charged by Indian Railways in specific trains.

❖ **Conditions for Equilibrium of Monopoly in Short Run**

- 2 conditions → \_\_\_\_\_ and MC should cut MR from \_\_\_\_\_
- Can a monopolist incur losses in short run? YES, if \_\_\_\_\_
  - ❑ Should firm shutdown in such case ?
  - ❑ It depends, If \_\_\_\_\_, then shutdown or else continue

❖ **Equilibrium of Monopoly in Long Run**

- In absence of competition, monopolist \_\_\_\_\_ produce at optimal level. He can produce at a sub-optimal scale also.
- He need not reach minimum of LAC curve; he can stop at any point on the LAC where his profits are maximum.
- Monopolist will \_\_\_\_\_ continue if → losses in long run.
- He will continue to make \_\_\_\_\_ profits even in long run as entry of outside firms is \_\_\_\_\_.



❖ **Price Discrimination**

- Price discrimination occurs when **producer sells** specific G/S to **different buyers** at **two or more \_\_\_\_\_ prices** for **reasons \_\_\_\_\_ associated with difference in cost.**
- Adopted by a **monopolist** → **to earn abnormal profits.**
- Price discrimination **cannot persist under \_\_\_\_\_** as they have no influence over price.

❖ **Conditions for Price Discrimination**

- 1) **Seller** should have **some control over supply** of his product (**price-setting power**)
- 2) Seller should be **able to divide his market** into \_\_\_\_\_ **sub-markets.**
- 3) **Price-elasticity** of product should be \_\_\_\_\_ **in different sub-markets.**  
 Charge \_\_\_\_\_ **price** → for buyers having **inelastic demand**  
 Charges \_\_\_\_\_ **price** → for buyers having **elastic demand**
- 4) **Not be possible** for **buyers of \_\_\_\_\_-priced market** to **resell** to **buyers of \_\_\_\_\_-priced market (no market arbitrage)**

❖ **Degrees for Price Discrimination by \_\_\_\_\_**

_____ <b>Degree</b> (Customer Wise)	Separating market into each <b>individual consumer</b> & charge them different prices (extract _____ consumer surplus) Eg- <b>Doctors, lawyers, consultants</b> etc., charging different fees, prices decided, auctions
_____ <b>Degree</b> (Quantity wise)	<b>There are two possibilities here:</b> 1) Larger quantities available at _____ unit price. Eg- <b>family pack of soaps</b> or biscuits tends to <b>cost less per kg than smaller packs.</b> 2) Each consumer pays <b>different price for consecutive purchases.</b> Eg- <b>mobile sim service</b> → charge higher internet prices when consumption exceeds a particular limit.
_____ <b>Degree</b> (Attribute wise)	Price varies by attributes → <b>location</b> or <b>customer segment.</b> <b>Divide consumers into separate sub-markets</b> & charge _____ <b>prices in different sub-markets.</b> Eg- <b>Dumping</b> , charging <b>different prices for domestic and commercial uses</b> , <b>lower prices in railways for senior citizens</b> , etc.

❖ **III) Monopolistic Competition**

- **Large no. of sellers** selling \_\_\_\_\_ (similar but \_\_\_\_\_ identical) products → to **attract customers** on some basis **other than price.**
- Eg of monopolistic market- **soaps, detergent, toothpaste** etc

Features of Monopolistic Competition		
1	<b>Large no. of sellers</b>	<b>Large number</b> of sellers → small share in mkt
2	<b>Product differentiation</b>	Products → <b>differentiated</b> on basis of <b>brands</b> → <b>close substitutes</b> → demand is _____. Firms use <b>size, design, colour, shape, performance, features, packaging &amp; promotional techniques</b> to make their products different. (may be <b>true</b> or <b>fancied</b> )
3	<b>Freedom of entry/ exit</b>	Firms are <b>free to enter or exit</b> the market
4	<b>Non-price competition</b>	They indulge in <b>aggressive advertising, product development, efficient after-sales service</b> etc. <b>Avoid price wars</b> → <b>throw few firms out of market</b> or <b>reduce profit</b>

❖ **In Monopolistic Competition**

- Since **product is differentiated** → each firm makes **independent decisions** about **price & output**.
- Each firm → **price maker** → some control on price due to prod diff.

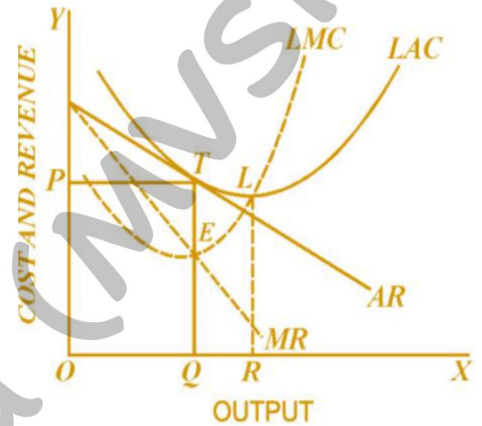


❖ **Conditions for Equilibrium of Monopolistic Competition in Short Run**

- 2 conditions → \_\_\_\_\_ and MC should cut MR from \_\_\_\_\_

❖ **Equilibrium of Monopolistic Competition in Long Run**

- In long run → **all monopolistic comp. firms** → earn only \_\_\_\_\_
- At equi. → \_\_\_\_\_ produce at min point of LAC → **do not fully realize economies of large scale prod** → **not used to optimum capacity**.
- Any **attempt to produce more** → **irrational** → **fall in AR > fall in AC**
- Long run equilibrium → produce at \_\_\_\_\_ **portion of LAC curve** → producing **lower quantity than its full capacity level** → leading to \_\_\_\_\_ **capacity**.



❖ **IV) Oligopoly**

- Oligopoly → '**competition among \_\_\_\_\_**' (2 to 10 firms)
- Prof. \_\_\_\_\_ defines oligopoly → "situation in which **a firm bases its market policy**, in part, **on expected behaviour of a few close rivals**".
- Eg of Oligopoly- **cold drinks, automobile, Airlines, petroleum refining, power generation, mobile telephony & Internet service providers** etc.

Features of Oligopoly	
	Each seller is <b>big enough to influence market</b> . A firm must <b>necessarily respond to its rivals' actions</b> , and simultaneously <b>rivals also respond to the firm's actions</b> .
Importance of advertising and selling costs	Firms use <b>aggressive &amp; defensive marketing</b> weapons to <b>gain greater market share</b> . Firms <b>avoid price cutting</b> & try to <b>compete on non-price</b> basis
Group Behaviour	<b>No generally accepted theory</b> of group behaviour. Firms may agree to pull together as a group in promotion of their common interest. May or may not have a leader.

Types of Oligopoly	
1	<b>Pure oligopoly or perfect oligopoly</b> occurs when the product is _____ in nature, e.g. Aluminium industry. It tends to <b>process _____ (intermediate goods)</b> that are <b>used as inputs by other industries</b> . Eg- are petroleum, steel, and aluminium
	<b>Differentiated or imperfect oligopoly</b> occurs when goods sold is based on _____, e.g. Talcum powder.
2	_____ <b>oligopoly</b> → <b>new firms can enter</b> market & compete with existing firms.
	In _____ <b>oligopoly entry is restricted</b> .

Types of Oligopoly	
3	When few firms of oligopoly market come to common understanding or <b>act in collusion</b> → <b>fixing price or output or both</b> , it is _____ <b>oligopoly</b> .
	When there is <b>absence of such an understanding</b> among the firms and they compete with each other, it is called _____ <b>oligopoly</b> .
4	Oligopoly is _____ when <b>industry is dominated by one large firm</b> → looked upon as <b>leader</b> of group. Dominating firm will be <b>price leader</b>
	_____ <b>oligopoly</b> → <b>Absence of price leadership</b> .
5	_____ <b>oligopoly</b> → Firms <b>sell</b> their products <b>through a centralized syndicate</b> .
	_____ <b>oligopoly</b> → Firms organize themselves into a <b>central association</b> for <b>fixing prices, output, quotas</b> , etc.

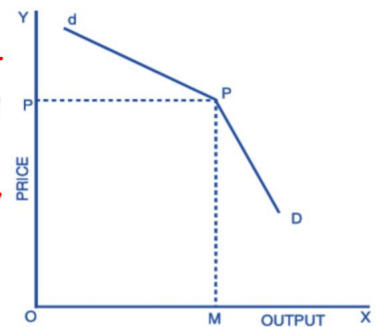
❖ **Price & output Decision in Oligopoly**

- An oligopoly firm \_\_\_\_\_ **have sure & determinate demand curve**, since **demand curve keeps shifting** as **rivals change their price in reaction** to price change made by a firm.
- Now, what **price & output** to be fixed **cannot be ascertained**.
- However, economist have given some **price-output models**
  - 1) **Ignore** firm's **inter dependence**
  - 2) a) \_\_\_\_\_ **model** → **firms' control variable** is **output**. They do **not collude**.
  - 2) b) \_\_\_\_\_ **model** → **leader commits** to an output → rest of firms are **followers**
  - 2) c) \_\_\_\_\_ **model** → **price** is **control variable**
  - 3) **Enter into agreement** and **pursue common interests**. Eg- OPEC

❖ \_\_\_\_\_ → A group of firms that explicitly **agree (collude) to coordinate their activities** → leads to **high market power & earn monopoly profits**

❖ **Kinked Demand Curve**

- As per \_\_\_\_\_, prices in oligopoly **remain \_\_\_\_\_** or **inflexible**.
- \_\_\_\_\_ under oligopoly is explained by **kinked demand curve hypothesis** (\_\_\_\_\_’s Model)
- Kinked demand curve → **'kink'** at level of \_\_\_\_\_ **price**.
- ❑ **segment** of demand curve **above prevailing price** is **highly \_\_\_\_\_** (when firm raises price, competitors do not follow)
- ❑ **segment** of demand curve **below prevailing price** is \_\_\_\_\_ (when firm decreases price, competitors will follow)



❖ **Other Market Forms**

	A subset of oligopoly where there are <b>only two firms</b> in market.
	Market where there is <b>single buyer</b> of G/S & is applicable to factor markets in which a <b>single firm</b> is the only buyer of a factor.
	Market where there is a <b>small number of large buyers</b> & is relevant to <b>factor markets</b> .
	Market structure where there is <b>only single buyer &amp; single seller</b> i.e. it is <b>combination</b> of _____ market & a _____ market

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