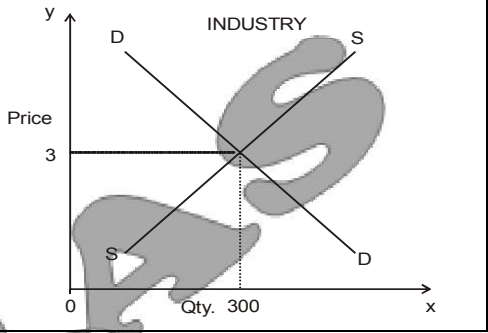
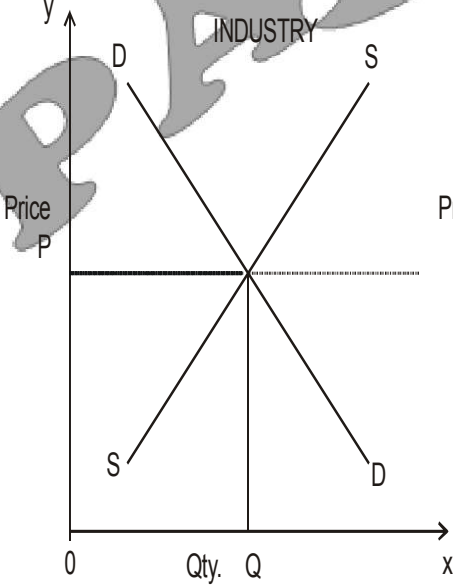
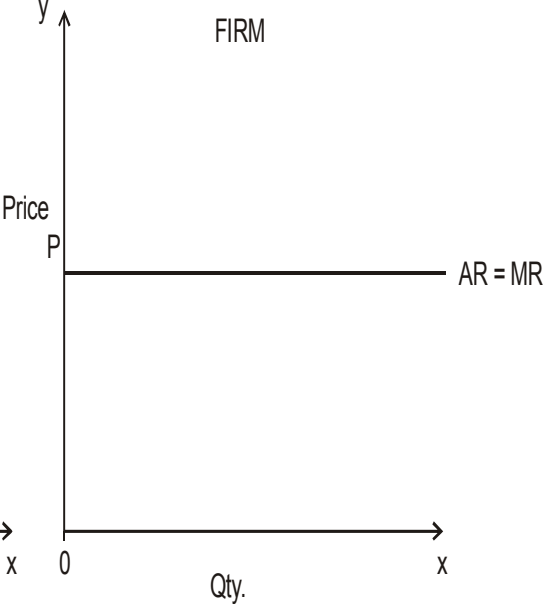
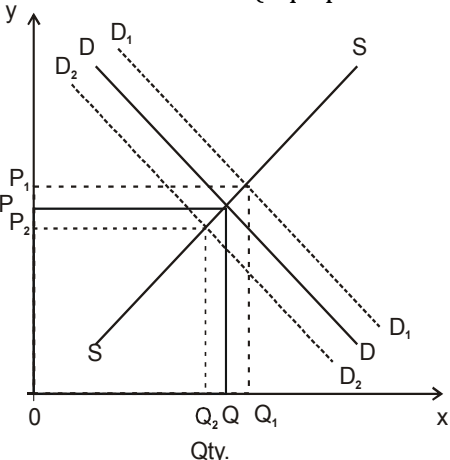
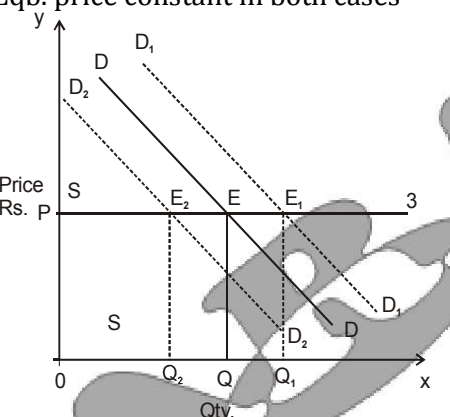
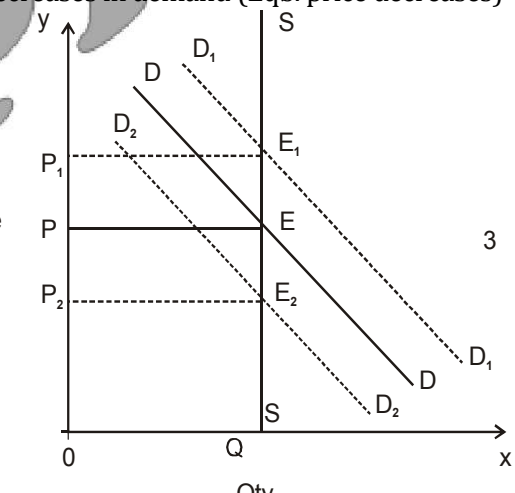
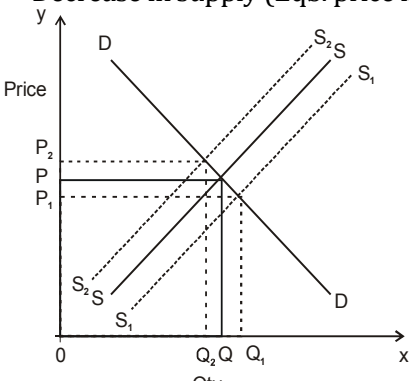
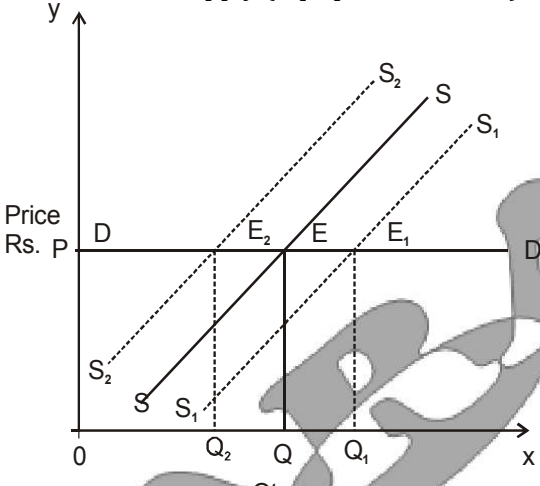
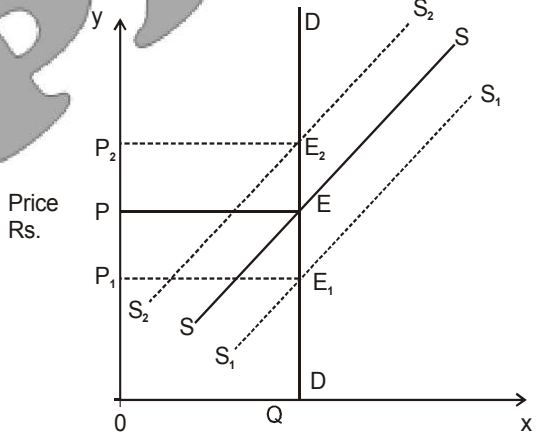


# 11

# PERFECT COMPETITION MARKET- INDUSTRY

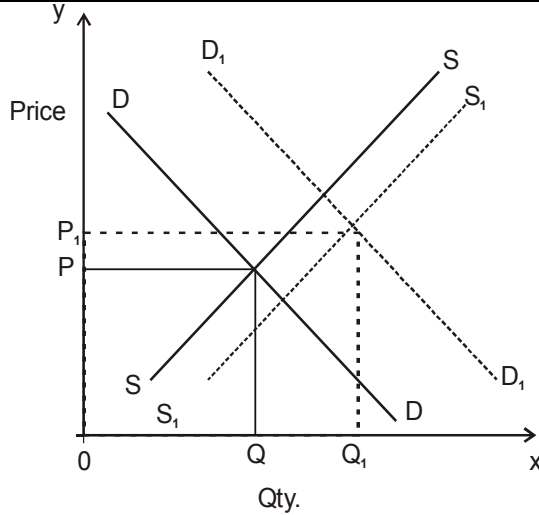
Equilibrium Price			
<b>Definition</b>	The price at which the quantity of commodity that the sellers wish to sell is just equal to the quantity that the buyer wish to buy is called equilibrium price		
<b>Meaning</b>	The word equilibrium means a state of rest or a position of no change or a balanced situation. In economics equilibrium price is that price at which forces of demand and supply are in balance or equal to each other. It is a stable price that tends to remain constant till market forces do not change. At equilibrium price qty. demanded equals quantity supplied.		
<b>1. Graphical Presentation</b>	Price Qty.	Demanded	Qty. Supplied
	1	500	100
	2	400	200
	3	300	300
	4	200	400
	5	100	500
	 <p>Price</p> <p>3</p> <p>0</p> <p>Qty. 300</p> <p>x</p> <p>y</p> <p>D</p> <p>INDUSTRY</p> <p>S</p>		
<p>ox - axis expresses the quantity and qy-axis the price. DD is demand curve and SS is supply curve. They cut each other at point 'E' that is demand &amp; supply is equal of any commodity. This point 'E' is the equilibrium point. This point signifies the equilibrium price is Rs. 3 and eqb. qty. is 300 units.</p> <p>* Price determination under perfect competition market.</p>			
	 <p>y</p> <p>D</p> <p>INDUSTRY</p> <p>S</p> <p>Price</p> <p>P</p> <p>0</p> <p>Qty. Q</p> <p>x</p>	 <p>y</p> <p>FIRM</p> <p>Price</p> <p>P</p> <p>0</p> <p>Qty.</p> <p>x</p> <p>AR = MR</p>	

Effect on equilibrium price, when	
<p><b>2. Change in demand</b></p>	<p>There are two parts of change in demand:</p> <ul style="list-style-type: none"> <li>• Increase in demand (Eqb. price increases.)</li> <li>• Decrease in demand (Eqb. price decreases.)</li> </ul> 
<p><b>3. Change in demand in case of perfectly elastic supply</b></p>	<ul style="list-style-type: none"> <li>• Increase and Decrease in demand</li> <li>• Eqb. price constant in both cases</li> </ul> 
<p><b>4. Change in demand in case of perfectly inelastic supply.</b></p>	<ul style="list-style-type: none"> <li>• Increase in demand (Eqb. price increases)</li> <li>• Decreases in demand (Eqb. price decreases)</li> </ul> 

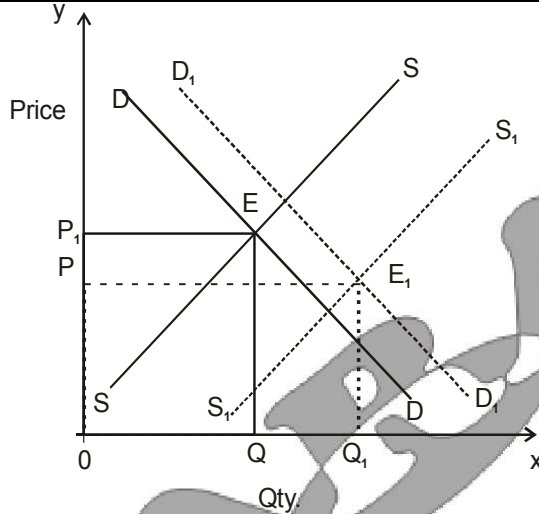
<p><b>5. When change in supply</b></p>	<ul style="list-style-type: none"> <li>• Increase in supply (Eqb. price decreases)</li> <li>• Decrease in supply (Eqb. price increases)</li> </ul> 
<p><b>6. Change in supply in case of perfectly demand</b></p>	<ul style="list-style-type: none"> <li>• Increase in supply (Eqb. price constant.)</li> <li>• Decrease in supply (Eqb. price constant.)</li> </ul> 
<p><b>7. Change in supply in case of perfectly inelastic demand</b></p>	<ul style="list-style-type: none"> <li>• Increase in supply (Eqb. price Decreases)</li> <li>• Decrease in supply (Eqb. price increases)</li> </ul> 

**Effect on Equilibrium Price When Simultaneously Change in demand supply**

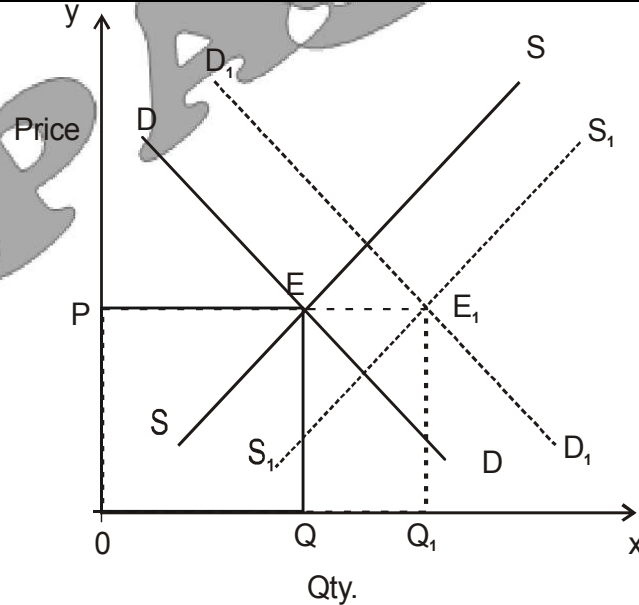
**8.1 Demand Increases More than Supply**  
**Eqb. Price Increases**



**8.2 Supply Increases More than Demand**  
**Eqb. Price Decreases**



**8.3 Demand and Supply are Equal Increases**  
**Eqb. Price Constant**



<p><b>8.4 Demand Decreases More than Supply Eqb. Price Decreases</b></p>	
<p><b>8.5 Supply Decreases More than Demand Eqb. Price Increase</b></p>	
<p><b>8.6 Demand and Supply are Equal Decrease Eqb. Price Constant</b></p>	

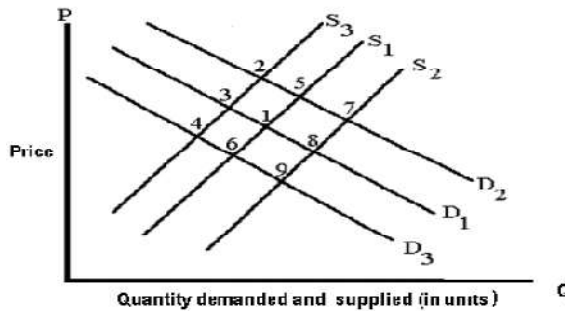
**Extra Shots on Time & Price**

<b>Time</b>	<b>Price</b>
Very Short Period	Market Price
Short Period	Subnormal Price
Long Period	Normal Price
Very Long Period	Secular Price

**ILLUSTRATION**

**1**

D1 and S1 are the original demand and supply curves. D2, D3, S2 and S3 are possible new demand and supply curves. Starting from initial equilibrium point (1), what point on the graph is most likely to result from each change given in Questions 1 to 4?



1. Assume X is a normal good. Holding everything else constant, assume that income rises and the price of a factor of production also increases. What point in the figure above is most likely to be the new equilibrium price and quantity?
2. We are analyzing the market for good Z. The price of a complement good, good Y, declines. At the same time, there is technological advance in the production of good Z. What point the figure above is most likely to be the new equilibrium price and quantity?
3. Heavy rains in Maharashtra during 2005 and 2006 caused havoc with the rice crop. What point in the figure above is most likely to be the new equilibrium price and quantity?
4. Assume that consumers expect the prices of new cars to significantly increase next year. What point in the figure above is most likely to be the new equilibrium price and quantity?

**Let us try answering these questions.**

1. When income of people rises, the demand curve will shift to right (becomes D2) as X is given to be a normal good. An increase in the price of factors of production used in the production of the good under consideration will decrease its supply and shift the supply curve to the left to S3. The new demand and supply of X will meet at Point 2.
2. When the price of a complementary good falls, the demand for the good in question increases. Therefore, when price of the complementary good Y falls, the demand curve for Z will move to right and become D2 and due to technological advancement the supply of Z will increase and become S2. The new demand and supply of Z will meet at Point 7.
3. Due to heavy rains, the supply of rice will fall and the new equilibrium point will be 3. It is assumed that there is no change in demand.
4. If prices of cars are expected to increase in future, the demand curve will shift to right. Assuming that the supply remains constant, the new equilibrium point will be 5.

## MULTIPLE CHOICE QUESTIONS

- Q.1. If price is forced to stay below equilibrium price:(A,07)**  
(a) Excess supply exists                      (b) Excess demand exists  
(c) Either (a) or (b)                          (d) Neither (a) nor (b)
- Q.2. An increase in supply with unchanged demand leads to :(N,07) (J,10)**  
(a) Rise in price and fall in quantity      (b) Fall in both price and quantity  
(c) Rise in both price and quantity      (d) Fall in price and rise in quantity
- Q.3. \_\_\_\_\_ is the price at which demand for a commodity is equal to its supply:(J,08)**  
(a) Normal Price                                  (b) Equilibrium Price  
(c) Short run Price                              (d) Secular Price
- Q.4. Time element was conceived by [SM-60]**  
(a) Adam Smith                      (b) Alfred Marshall      (c) Pigou                      (d) Lionel Robinson
- Q.5. The meaning of time element in economics is \_\_\_\_\_(J,15)**  
(a) Calendar time  
(b) Clock time  
(c) Operational time which supply adjusts with the market demand  
(d) None of these
- Q.6. With a given supply curve, a decrease in demand causes [SM-12]**  
(a) an overall decrease in price but an increase in equilibrium quantity.  
(b) an overall increase in price but a decrease in equilibrium quantity.  
(c) an overall decrease in price and a decrease in equilibrium quantity.  
(d) no change in overall price but a reduction in equilibrium quantity.
- Q.7. If supply increases in a greater proportion than demand [SM-15]**  
(a) The new equilibrium price and quantity will be greater than the original equilibrium price and quantity.  
(b) The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher.  
(c) The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.  
(d) The new equilibrium price will be lower than the original equilibrium and the new equilibrium quantity will be higher.
- Q.8. Assume that in the market for good Z there is a simultaneous increase in demand and the quantity supplied. The result will be: [SM-16]**  
(a) an increase in equilibrium price and quantity.  
(b) a decrease in equilibrium price and quantity.  
(c) an increase in equilibrium quantity and uncertain effect on equilibrium price.  
(d) a decrease in equilibrium price and increase in equilibrium quantity.

- Q.9. Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilisation of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity? [SM-17]**  
 (a) Price will increase, quantity cannot be determined.  
 (b) Price will decrease; quantity cannot be determined.  
 (c) Quantity will increase; price cannot be determined.  
 (d) Quantity will decrease price cannot be determined.
- Q.10. Which of the following statements is accurate regarding a perfectly competitive firm? [SM-53]**  
 (a) Demand curve is downward sloping  
 (b) The demand curve always lies above the marginal revenue curve  
 (c) Average revenue need not be equal to price  
 (d) Price is given and is determined by the equilibrium in the entire market
- Q.11. In perfect competition, in the long run if a new firm enters the industry the supply curve shifts to the right resulting in \_\_\_\_.**  
 (a) Fall in price (b) Rise in price  
 (c) Reduction in supply (d) No change in price.
- Q.12. In the perfect competition, if a new firm enters the industry in the long run, the supply curves \_\_\_\_.**  
 (a) Shifts to the left (b) Turns upwards (c) Turns downwards (d) Shifts to the right
- Q.13. Two opposing forces that reach balance in market equilibrium are :**  
 (a) Demand and supply (b) Labour and capital  
 (c) Government and scarcity (d) Government and general public.
- Q.14. In the table below what will be equilibrium market price? [SM - 1]**
- | Price | Demand (Rs.) | Supply (tones per annum) |
|-------|--------------|--------------------------|
| 1     | 1000         | 400                      |
| 2     | 900          | 500                      |
| 3     | 800          | 600                      |
| 4     | 700          | 700                      |
| 5     | 600          | 800                      |
| 6     | 500          | 900                      |
| 7     | 400          | 1000                     |
| 8     | 300          | 1100                     |
- (a) Rs. 2 (b) Rs. 3 (c) Rs. 4 (d) Rs. 5.
- Q.15. Assume that consumers' incomes and the number of sellers in the market for good A both decrease. Based upon this information we can conclude, with certainty, that equilibrium :[SM-14]**  
 (a) Price will increase (b) Price will decrease  
 (c) Quantity will increase (d) Quantity will decrease.



- Q.16. Suppose that the supply of cameras increases due to an increase in foreign imports. Which of the following will most likely occur?**  
 (a) The equilibrium price of cameras will increase.  
 (b) The equilibrium quantity of cameras exchanged will decrease.  
 (c) The equilibrium price of camera film will decrease.  
 (d) The equilibrium quantity of camera film exchanged will increase.
- Q.17. Who sets the price of the product under perfect competition?(D,16)**  
 (a) Government (b) Consumers  
 (c) Sellers (d) Both buyers and sellers
- Q.18. Equilibrium price may be determined through:(M,07)**  
 (a) Only demand (b) only supply  
 (c) Both demand & supply (d) None

Answer Key																	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
b	d	b	b	c	c	d	c	c	d	a	d	a	c	d	d	d	c



Name

Adm. Code

Date

TOTAL MARKS :

1	A	B	C	D	<input type="checkbox"/>	41	A	B	C	D	<input type="checkbox"/>	81	A	B	C	D	<input type="checkbox"/>	116	A	B	C	D	<input type="checkbox"/>
2	A	B	C	D	<input type="checkbox"/>	42	A	B	C	D	<input type="checkbox"/>	82	A	B	C	D	<input type="checkbox"/>	117	A	B	C	D	<input type="checkbox"/>
3	A	B	C	D	<input type="checkbox"/>	43	A	B	C	D	<input type="checkbox"/>	83	A	B	C	D	<input type="checkbox"/>	118	A	B	C	D	<input type="checkbox"/>
4	A	B	C	D	<input type="checkbox"/>	44	A	B	C	D	<input type="checkbox"/>	84	A	B	C	D	<input type="checkbox"/>	119	A	B	C	D	<input type="checkbox"/>
5	A	B	C	D	<input type="checkbox"/>	45	A	B	C	D	<input type="checkbox"/>	85	A	B	C	D	<input type="checkbox"/>	120	A	B	C	D	<input type="checkbox"/>
6	A	B	C	D	<input type="checkbox"/>	46	A	B	C	D	<input type="checkbox"/>	86	A	B	C	D	<input type="checkbox"/>	121	A	B	C	D	<input type="checkbox"/>
7	A	B	C	D	<input type="checkbox"/>	47	A	B	C	D	<input type="checkbox"/>	87	A	B	C	D	<input type="checkbox"/>	122	A	B	C	D	<input type="checkbox"/>
8	A	B	C	D	<input type="checkbox"/>	48	A	B	C	D	<input type="checkbox"/>	88	A	B	C	D	<input type="checkbox"/>	123	A	B	C	D	<input type="checkbox"/>
9	A	B	C	D	<input type="checkbox"/>	49	A	B	C	D	<input type="checkbox"/>	89	A	B	C	D	<input type="checkbox"/>	124	A	B	C	D	<input type="checkbox"/>
10	A	B	C	D	<input type="checkbox"/>	50	A	B	C	D	<input type="checkbox"/>	90	A	B	C	D	<input type="checkbox"/>	125	A	B	C	D	<input type="checkbox"/>
11	A	B	C	D	<input type="checkbox"/>	51	A	B	C	D	<input type="checkbox"/>	91	A	B	C	D	<input type="checkbox"/>	126	A	B	C	D	<input type="checkbox"/>
12	A	B	C	D	<input type="checkbox"/>	52	A	B	C	D	<input type="checkbox"/>	92	A	B	C	D	<input type="checkbox"/>	127	A	B	C	D	<input type="checkbox"/>
13	A	B	C	D	<input type="checkbox"/>	53	A	B	C	D	<input type="checkbox"/>	93	A	B	C	D	<input type="checkbox"/>	128	A	B	C	D	<input type="checkbox"/>
14	A	B	C	D	<input type="checkbox"/>	54	A	B	C	D	<input type="checkbox"/>	94	A	B	C	D	<input type="checkbox"/>	129	A	B	C	D	<input type="checkbox"/>
15	A	B	C	D	<input type="checkbox"/>	55	A	B	C	D	<input type="checkbox"/>	95	A	B	C	D	<input type="checkbox"/>	130	A	B	C	D	<input type="checkbox"/>
16	A	B	C	D	<input type="checkbox"/>	56	A	B	C	D	<input type="checkbox"/>	96	A	B	C	D	<input type="checkbox"/>	131	A	B	C	D	<input type="checkbox"/>
17	A	B	C	D	<input type="checkbox"/>	57	A	B	C	D	<input type="checkbox"/>	97	A	B	C	D	<input type="checkbox"/>	132	A	B	C	D	<input type="checkbox"/>
18	A	B	C	D	<input type="checkbox"/>	58	A	B	C	D	<input type="checkbox"/>	98	A	B	C	D	<input type="checkbox"/>	133	A	B	C	D	<input type="checkbox"/>
19	A	B	C	D	<input type="checkbox"/>	59	A	B	C	D	<input type="checkbox"/>	99	A	B	C	D	<input type="checkbox"/>	134	A	B	C	D	<input type="checkbox"/>
20	A	B	C	D	<input type="checkbox"/>	60	A	B	C	D	<input type="checkbox"/>	100	A	B	C	D	<input type="checkbox"/>	135	A	B	C	D	<input type="checkbox"/>
21	A	B	C	D	<input type="checkbox"/>	61	A	B	C	D	<input type="checkbox"/>	101	A	B	C	D	<input type="checkbox"/>	136	A	B	C	D	<input type="checkbox"/>
22	A	B	C	D	<input type="checkbox"/>	62	A	B	C	D	<input type="checkbox"/>	102	A	B	C	D	<input type="checkbox"/>	137	A	B	C	D	<input type="checkbox"/>
23	A	B	C	D	<input type="checkbox"/>	63	A	B	C	D	<input type="checkbox"/>	103	A	B	C	D	<input type="checkbox"/>	138	A	B	C	D	<input type="checkbox"/>
24	A	B	C	D	<input type="checkbox"/>	64	A	B	C	D	<input type="checkbox"/>	104	A	B	C	D	<input type="checkbox"/>	139	A	B	C	D	<input type="checkbox"/>
25	A	B	C	D	<input type="checkbox"/>	65	A	B	C	D	<input type="checkbox"/>	105	A	B	C	D	<input type="checkbox"/>	140	A	B	C	D	<input type="checkbox"/>
26	A	B	C	D	<input type="checkbox"/>	66	A	B	C	D	<input type="checkbox"/>	106	A	B	C	D	<input type="checkbox"/>	141	A	B	C	D	<input type="checkbox"/>
27	A	B	C	D	<input type="checkbox"/>	67	A	B	C	D	<input type="checkbox"/>	107	A	B	C	D	<input type="checkbox"/>	142	A	B	C	D	<input type="checkbox"/>
28	A	B	C	D	<input type="checkbox"/>	68	A	B	C	D	<input type="checkbox"/>	108	A	B	C	D	<input type="checkbox"/>	143	A	B	C	D	<input type="checkbox"/>
29	A	B	C	D	<input type="checkbox"/>	69	A	B	C	D	<input type="checkbox"/>	109	A	B	C	D	<input type="checkbox"/>	144	A	B	C	D	<input type="checkbox"/>
30	A	B	C	D	<input type="checkbox"/>	70	A	B	C	D	<input type="checkbox"/>	110	A	B	C	D	<input type="checkbox"/>	145	A	B	C	D	<input type="checkbox"/>
31	A	B	C	D	<input type="checkbox"/>	71	A	B	C	D	<input type="checkbox"/>	111	A	B	C	D	<input type="checkbox"/>	146	A	B	C	D	<input type="checkbox"/>
32	A	B	C	D	<input type="checkbox"/>	72	A	B	C	D	<input type="checkbox"/>	112	A	B	C	D	<input type="checkbox"/>	147	A	B	C	D	<input type="checkbox"/>
33	A	B	C	D	<input type="checkbox"/>	73	A	B	C	D	<input type="checkbox"/>	113	A	B	C	D	<input type="checkbox"/>	148	A	B	C	D	<input type="checkbox"/>
34	A	B	C	D	<input type="checkbox"/>	74	A	B	C	D	<input type="checkbox"/>	114	A	B	C	D	<input type="checkbox"/>	149	A	B	C	D	<input type="checkbox"/>
35	A	B	C	D	<input type="checkbox"/>	75	A	B	C	D	<input type="checkbox"/>	115	A	B	C	D	<input type="checkbox"/>	150	A	B	C	D	<input type="checkbox"/>
36	A	B	C	D	<input type="checkbox"/>	76	A	B	C	D	<input type="checkbox"/>												
37	A	B	C	D	<input type="checkbox"/>	77	A	B	C	D	<input type="checkbox"/>												
38	A	B	C	D	<input type="checkbox"/>	78	A	B	C	D	<input type="checkbox"/>												
39	A	B	C	D	<input type="checkbox"/>	79	A	B	C	D	<input type="checkbox"/>												
40	A	B	C	D	<input type="checkbox"/>	80	A	B	C	D	<input type="checkbox"/>												

Max. Marks	Min. Marks	Right Ans.	Wrong Ans.	Blank Que.	Neg. Marks	Obt. Marks	Sub. Wise P/F