Types of Markets
05 October 2023 21:04

Unit-1 Meaning & Types of Markets

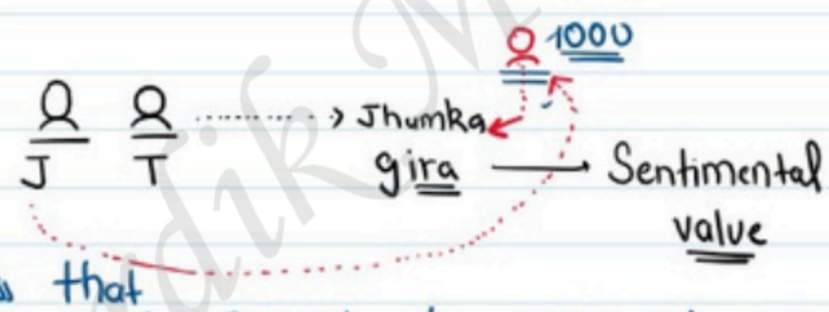
1] Free Goods :- Goods which are free / zero price goods.
Ex Air, Sunlight, etc.
↓
Abundant in Supply
- No Scarcity.

2] Economic Goods: - 1] Scarce in relation to their demand.
2] They have an opportunity cost.
3] Exchangeable in the market & commands a price.

3) Price :- a) Qty of money necessary to acquire goods or services.
b) purchasing power of an article, expressed in term of money.

4] Value in Use & value in exchange -

→ Value in Use:
⇓
It refers to the utility or usefulness that a product provides to a customer.



→ Value in exchange :
- "Amt of goods & services which we may obtained in the market in exchange of a particular thing"
↓
Currency
- Amount someone is willing to give up in other goods & services in order to obtain goods or services.

→ In Economics, we are concerned with Exchange value.

* What is Market ?
- Collection of buyers & sellers with the potential to trade.
- Market need not to be formal or held in a particular place.
↓
Online shopping.

→ The actual or potential interaction of buyers & sellers

→ The actual or potential interaction of buyers & sellers determine the price of goods or services.

Online shopping.

→ Market can be defined as all the buyers & sellers of goods or services who influence prices.

Elements of Market

- Seller & buyer
- Goods or Services
- Bargaining of a price → Power to influence price.
- Knowledge about Market conditions → Rational
- One price for a product or services at a given time.

* Classification of Market

- Product Market → Allocates goods/services to consumers
- Factor Market → Allocates productive resources to firm/producers → Land, Labour, Capital

Classification

- Geographical
  - Local
  - Regional
  - National
  - International
- On the basis of time
- Nature of transaction
- On the basis of Regulation
- Volume of business
- Competition

i] Geographical Area:

(i) Local Markets :-

a] buyers & sellers are limited to local area.

b] Highly perishable goods & bulky articles.

- Extent of market is limited to particular locality.

Ex. Hair dresser.

(ii) Regional Market: a) Covers a wider area such as adjacent cities, part of states, etc.

(ii) Regional Market: a) Covers a wider area such as adjacent cities, part of states, etc.

b) Nature of buyers may vary in their demand characteristics.

(iii) National Market: a) Demand for a commodity or services is limited to the national boundaries of a country.

→ Trade policy of the govt may restrict the trading of the commodity to within the country.

(iv) International Market - a) Goods are exchanged internationally.

→ High value & small bulk commodities
Ex- Gold | Silver.

2] On the basis of time :- Alfred Marshall

1. Very Short period Market: a] Supply is fixed & cannot be increased/decreased.
↓
Market period
Ex- perishable goods. like vegetables.

b] very short period price is dependent on demand.

↑Demand – Price↑

2) Short period Market :- a) Slightly longer than very short period.

b) Supply of output may be increased by increasing variable factor.

c] Changes in short period price on account of changes in demand is less, as compared to market period.

3) Long period Market: All factors are variable
↳ Supply can be changed by changing scale of production.

→ Interaction b/w long run supply & demand determines long run eq. price.
↳ Normal price.

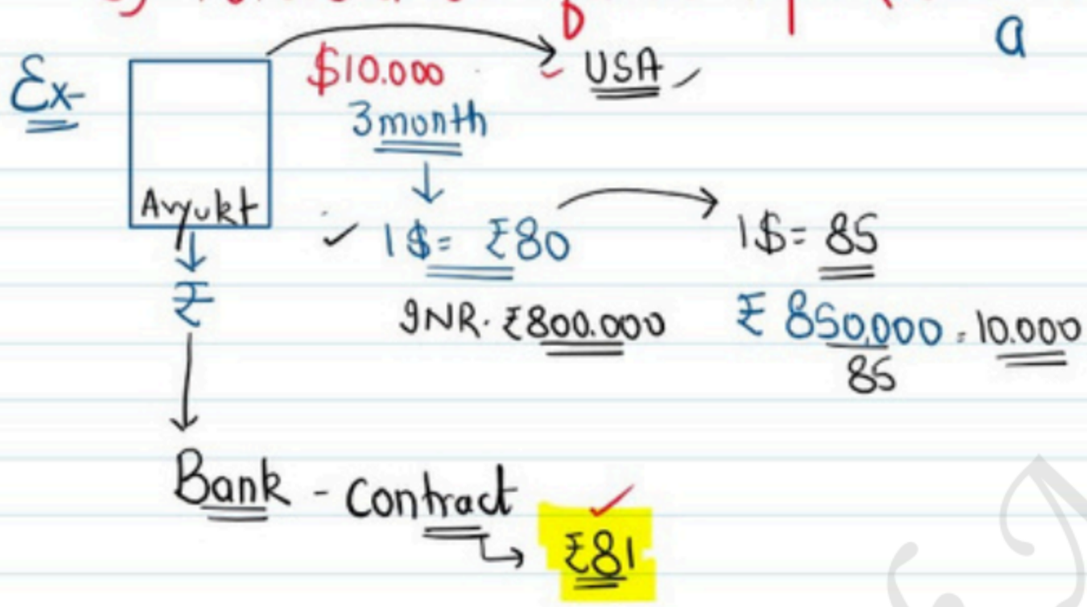
4) Very Long period Market: Secular movements are recorded in certain factors over a period of time.
↳ Secular period
↓
Size of population

3) On the basis of Nature of Transaction.

a) Spot / Cash Market: a) Goods are exchanged either immediately or within short span of time
Ex- Grains sold in the Mandi at the current Market

b) Forward or future Market: Transactions involve contracts with a promise to pay & deliver goods at some future date.

Ex- foreign currency contract.



4) On the basis of Regulation

a) Regulated Market - Transactions are Statutorily regulated.
↓
Stock Market
↓
SEBI
↓
To avoid unfair practices.

b) Unregulated Market - - Free Market
- No Stipulations on transactions

5) On the basis of Volume of business:-

a) Wholesale Market - a) Commodities are bought & sold in bulk or large quantities.
→ B2B

b) Retail Market - a) Sold in small quantities.
b) Market for ultimate consumer
B2C.

6) On the basis of competition:

6) On the basis of competition:

- Perfect Competitive Market
- Imperfect Competitive Market

a] Perfect Competitive Market
↓
Vegetable Market

(i) Very Large no. of Sellers
↓
(ii) Identical product
No product differentiation

(iii) Sellers have no control over price
No bargaining power
→ Price is decided by Market Demand & supply.

(iv) Price elasticity - Infinite
Perfect sub goods

b] Impertly competitive Market

- Monopolistic
- Monoboly
- Oligopoly

(i) Monobolistic: (i) Product Differentiation
↓
Products are similar but not identical

(ii) Large no. of sellers

(iii) Sellers have Some control over price
because of differentiation.

(iv) Price elasticity - Large - elastic.
Goods are close sub.

(ii) Monoboly :- (i) Single Seller (Railways - IRCTC)

(ii) Product is extremely differentiated

(iii) Very considerable degree of control over price.
high

(iv) Price elasticity - Small, Inelastic.

(iii) Oligoboly :- (i) Few large Sellers
having significant market share.

(ii) Product differentiation: None to Substantial

U ' U

→ having significant market share.

(ii) Product differentiation: None to Substantial
↓ Telecommunication ↓ Automobile

(iii) Some degree of control over price.

Imp → (iv) Price elasticity: Small – Product diff.
↓ Interdependent

Table 1 - Distinguishing Features of Major Types of Markets

Assumption	Market Types			
	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
Number of sellers	Very large	Large	Small numbers	One
Product differentiation	None	Slight	None to substantial	Extreme
Price elasticity of demand of a firm	Infinite	Large	Small	Small
Degree of control over price	None	Some	Some	Very considerable

X——X

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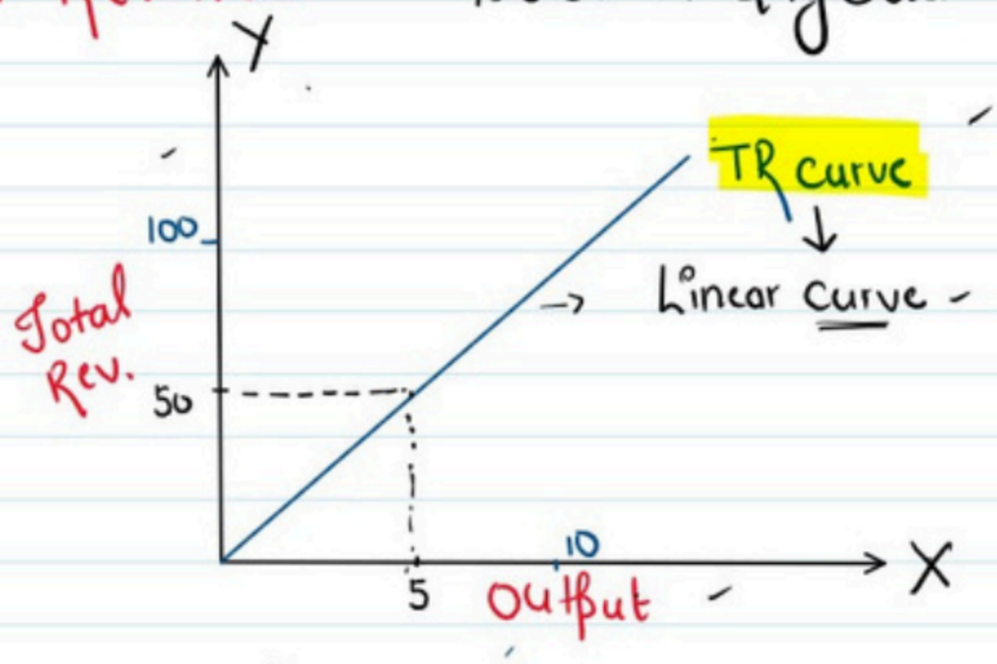
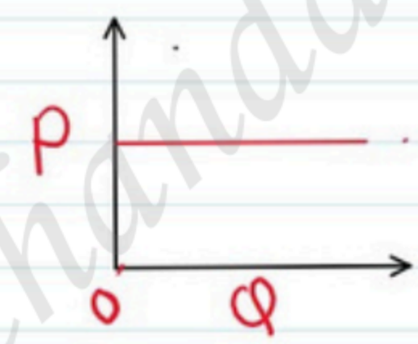
→ Total Revenue, Average Rev. & Marg. Rev.

1. Total Revenue = Price × Qty Sold



⇒ TR curve of a competitive firm having perfectly elastic demand curve ✓



Example

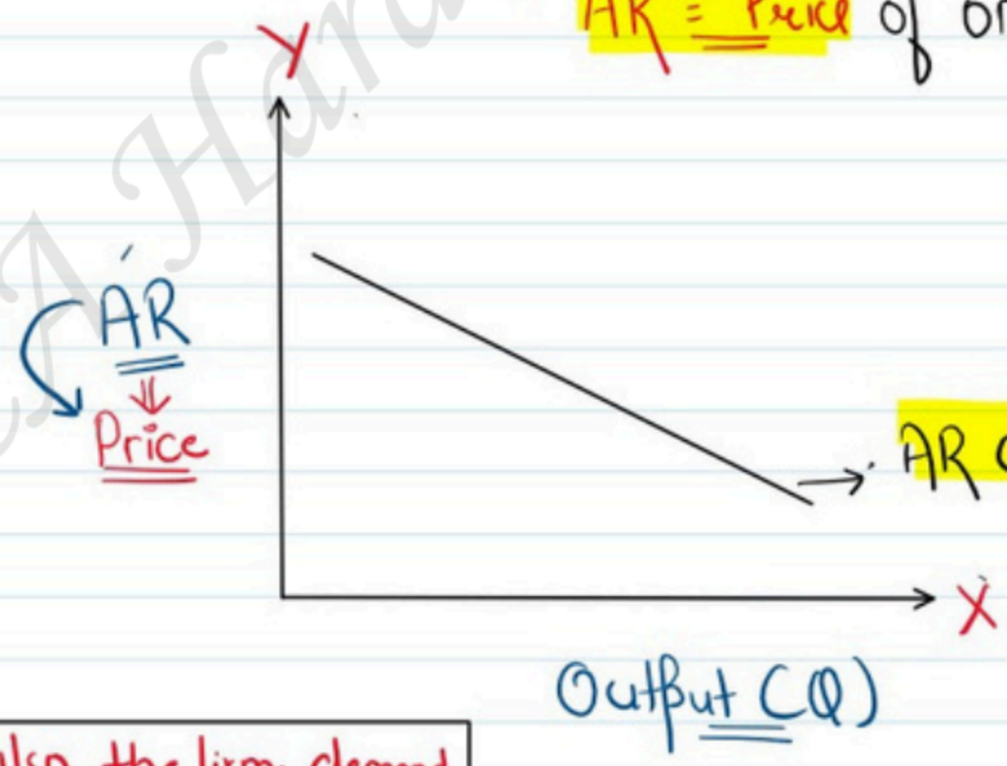
P	Q	TR
10	5 ↓2x	50 ↓2x
10	10	100

2. Average Revenue

↳ Revenue per unit of output

$AR = \frac{TR}{Q} \rightarrow \frac{P \times Q}{Q} = Price$

AR = Price of one unit of output



AR curve is also the firm's demand curve.

3. Marginal Revenue:-

↳ Change in TR resulting from sale of an add. unit of output.

Output	TR
10	1000

1) Output TR

10 1000] MR = 100

11 1100 $TR_n - TR_{n-1}$

2) 5 [10 1000] MR = 80

15 1400 $= \frac{\Delta TR}{\Delta Q} = \frac{400}{5} = 80$

AR > MR

Table 2: Total Revenue, Average Revenue and Marginal Revenue

Units	Total Revenue (P×Q)	Average Revenue (Price)		Marginal Revenue
1	10	10	>	10
2	18 (+8)	9 (1-9 (1)-, 2-9)	>	8
3	24 (+6)	8	>	6
4	28 (+4)	7	>	4
5	30 (+2)	6	>	2
6	30 (+0)	5	>	0
7	28 (-2)	4	>	-2
8	24	3	>	-4
9	18	2	>	-6
10	10	1	>	-8

Imperfect competitive firm

1] TR is Max. at unit 6, when MR = 0

2) AR keeps on falling, showing inverse relationship b/w price & qty. demanded.

3) MR keeps on falling & after becoming zero, it becomes negative.

$TR = \Sigma MR$

* Why MR due to 3rd unit [₹6], is not equal to price of the commodity [₹8]

↳ When price is reduced to ₹8 for selling an additional unit, the 2 units which could be sold for ₹9 before, will have to be sold at ₹8 per unit, resulting in loss of ₹2.

→ For any falling AR, MR is always less than the price.

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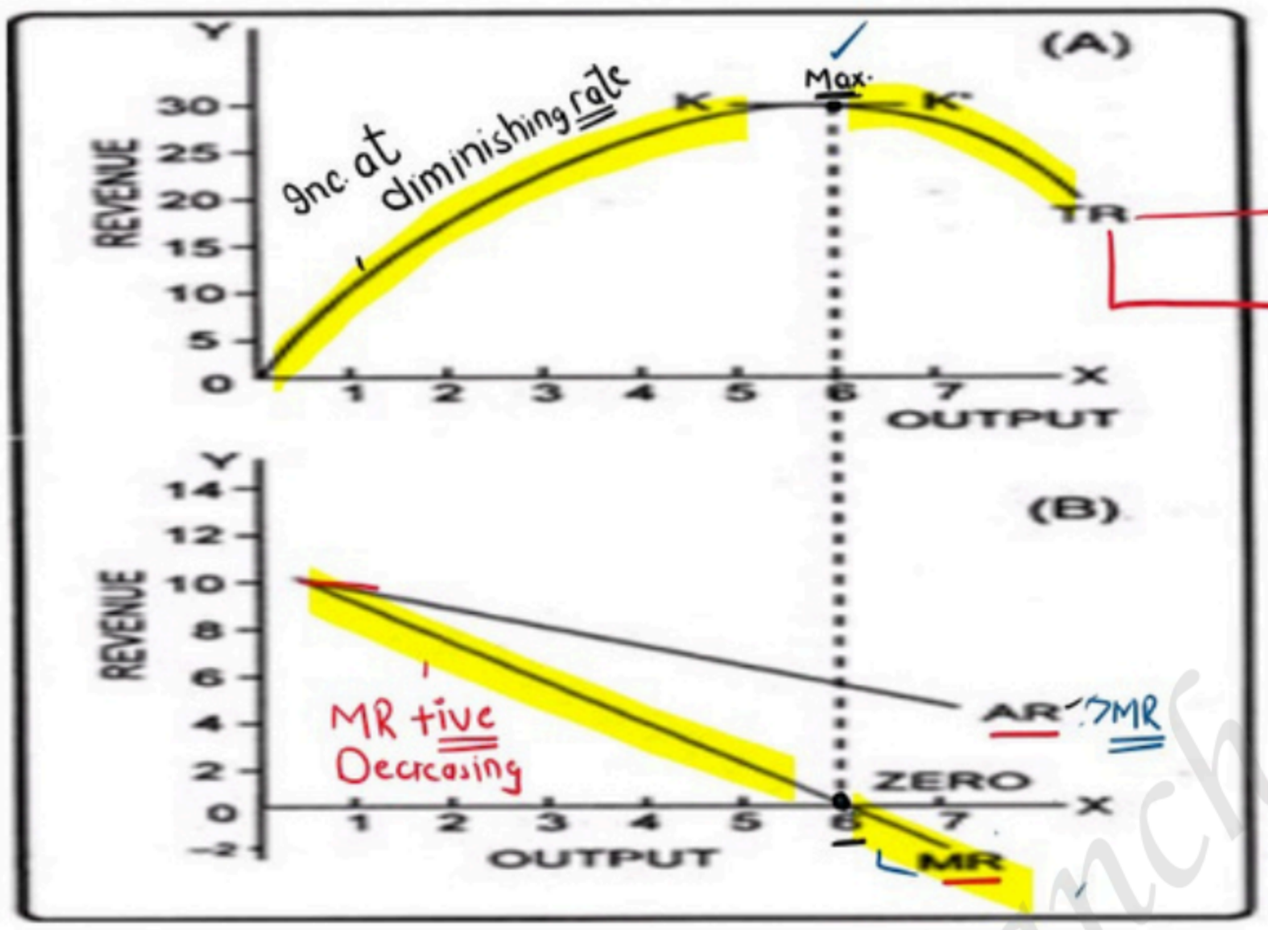


→ Imperfect Competitive Market

→ Slope $\frac{\Delta TR}{\Delta Q} = MR$

1. MR curve lies below AR curve showing that MR declines more rapidly.
2. TR increases as long as MR is positive & declines when MR is negative.
3. TR initally increases at a diminishing rate due to diminishing MR & reaches maximum, when MR is zero and then falls.

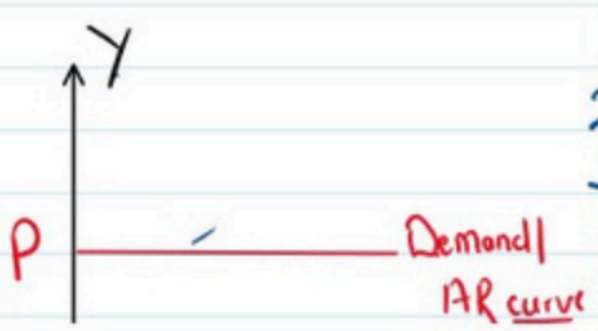
* Perfect Competition

1. Firms are price taker
2. AR or demand curve is perfectly elastic.
   ⇓
   Constant Price / AR

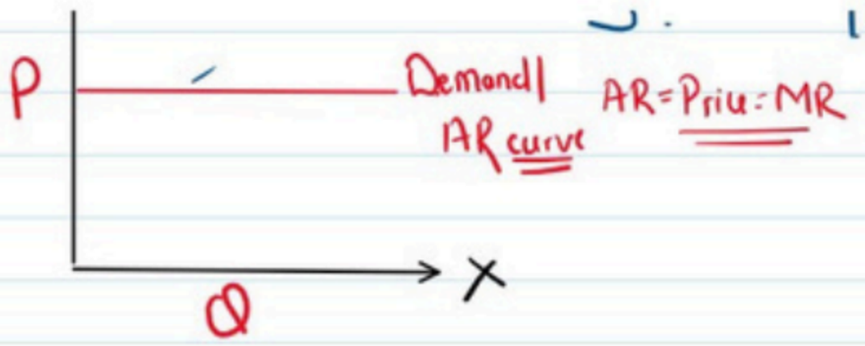
$$\boxed{MR = AR}$$

Example:

Units	AR (Price)	TR	MR
1	10	10	10
2	10	20	10
3	10	30	10



AR = Price = MR



* Relationship b/w AR, MR, TR & price elasticity of demand.

$$\boxed{MR = AR \times \frac{e-1}{e}}$$ [Ignore negative sign]

1. $e = 1$

$$MR = AR \times \left[\frac{1-1}{1}\right]$$

$MR = 0$
↳ TR maximum

2. $e > 1$

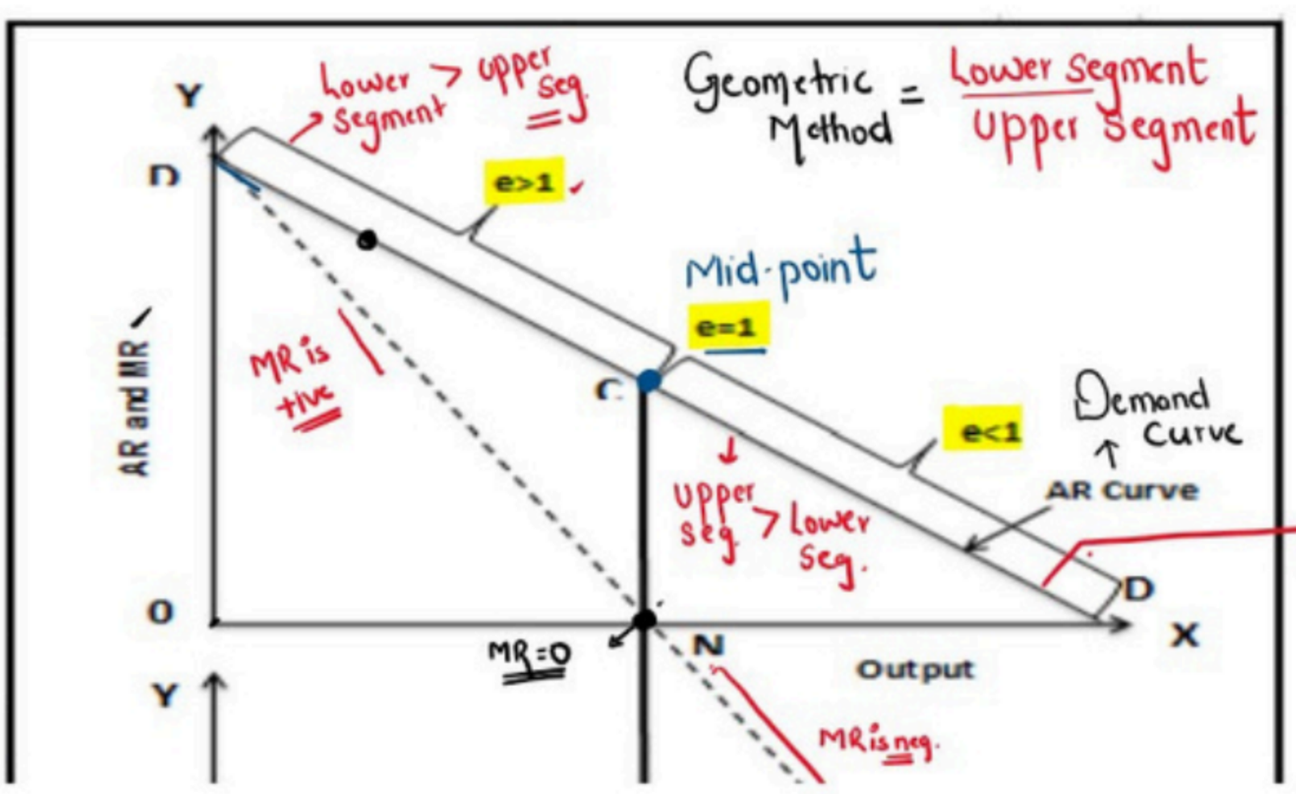
$$MR = AR \times \underbrace{\left[\frac{1.5-1}{1.5}\right]}_{+ive}$$

MR = +ive
↳ TR will increase

3. $e < 1$

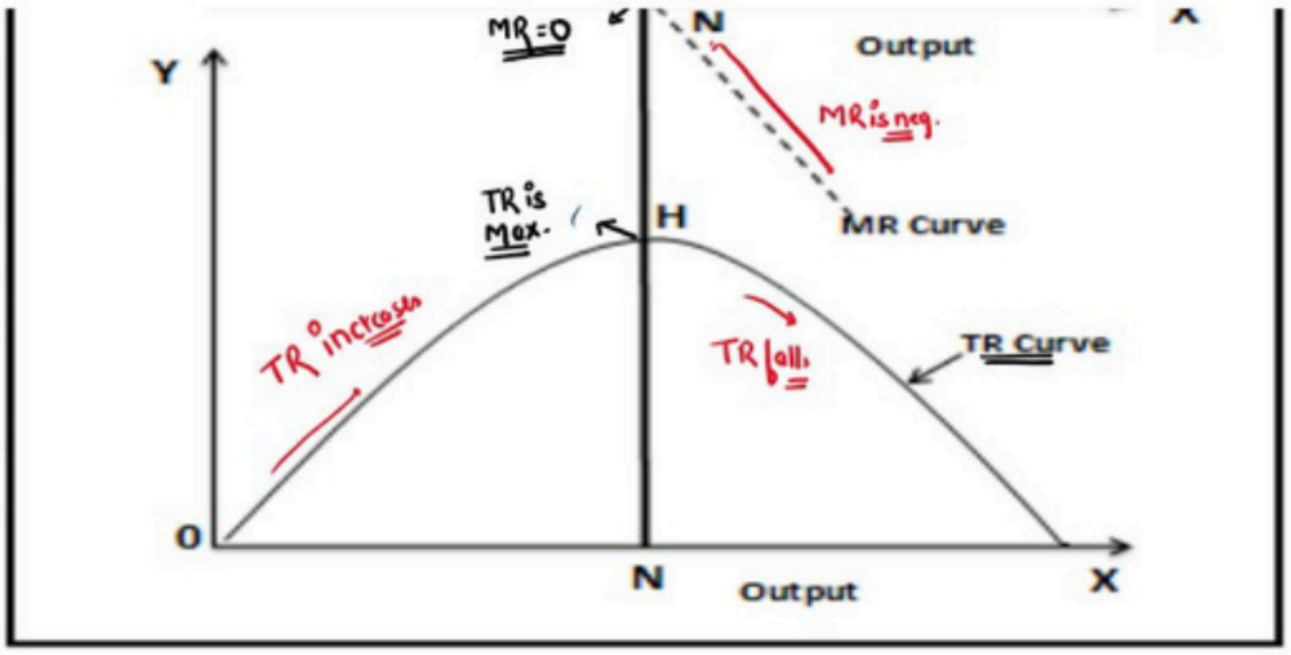
$$MR = AR \times \underbrace{\left[\frac{0.2-1}{0.2}\right]}_{-ive}$$

MR = -ive
↳ TR will fall.



Geometric Method = Lower Segment / Upper Segment

[Linear]
Straight line falling demand curve



X —— X

Behaviour

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- Behavioural Principles

1] Firm should not produce at all if is TVC are not met.

Ex- 1]  - Rent - ₹24000

Avyukt

↳ Fixed cost → Sunk cost

Output - 1000 units
TVC - 25000
TR = 50,000

AFC = 24
AVC = 25
] ATC = 49

↳ AR > ATC

⇒ If shutdown = ₹24000 Loss
If continue = TR = 50,000
(-) TC = 49000
Profit 1000

↳ Positive economic profit
Super Normal profit

Continue production

2] Output = 1000
TVC = 25000
TR = 49000

AFC = 24
AVC = 25
] TC = 49
AR = 49

↳ AR > AVC - continue

TR > TVC - Continue

Shutdown = 24000 Fixed cost
Continue = TR = TC
49000 = 49000

↳ Normal profit
Zero Economic Profit

3] TR = 40,000
TVC = 25000
TC = 49000

AR = 40
AVC = 25, AFC = 24
ATC = 49

⇒ TR > TVC
40,000 > 25000

AR > AVC
40 > 25

TR < TC
40000 < 49000

AR < ATC
40 < 49

TR < TC
40,000 < 49000

AR < ATC
40 < 49

Shutdown : 24000 Loss
Continue = ₹9000 Loss

TR
40,000
TVC 25000
TFC 15000

4) TR = 20,000
TVC = 25000
TFC : 24000

AR = 20
AVC = 25
AFC = 24

TR < TVC
20,000 < 25000

AR < AVC

Shutdown

TR - TC
20,000 - 49000 = (29000) Loss

5) TR = 25000
TVC = 25000
TFC : 24000

AR = 25
AVC = 25
AFC = 24

TR = TVC

AR = AVC

Shutdown

1. If firm's TR are not enough to make good even the TVC, it is better for the firm to Shut down.
⇓
Price | AR is below AVC
AR < AVC

⇒ In this case, Loss = Fixed cost

⇒ Sunk FC is irrelevant to the shut down decisions.

2. If Price | AR > AVC, but less than ATC

ATC > AR > AVC

→ firm cover its variable cost & some part of FC.

AIC > AK > AVC

→ firm cover its variable cost & some part of FC.

3. Price | AR = ATC

firm covers both FC & VC

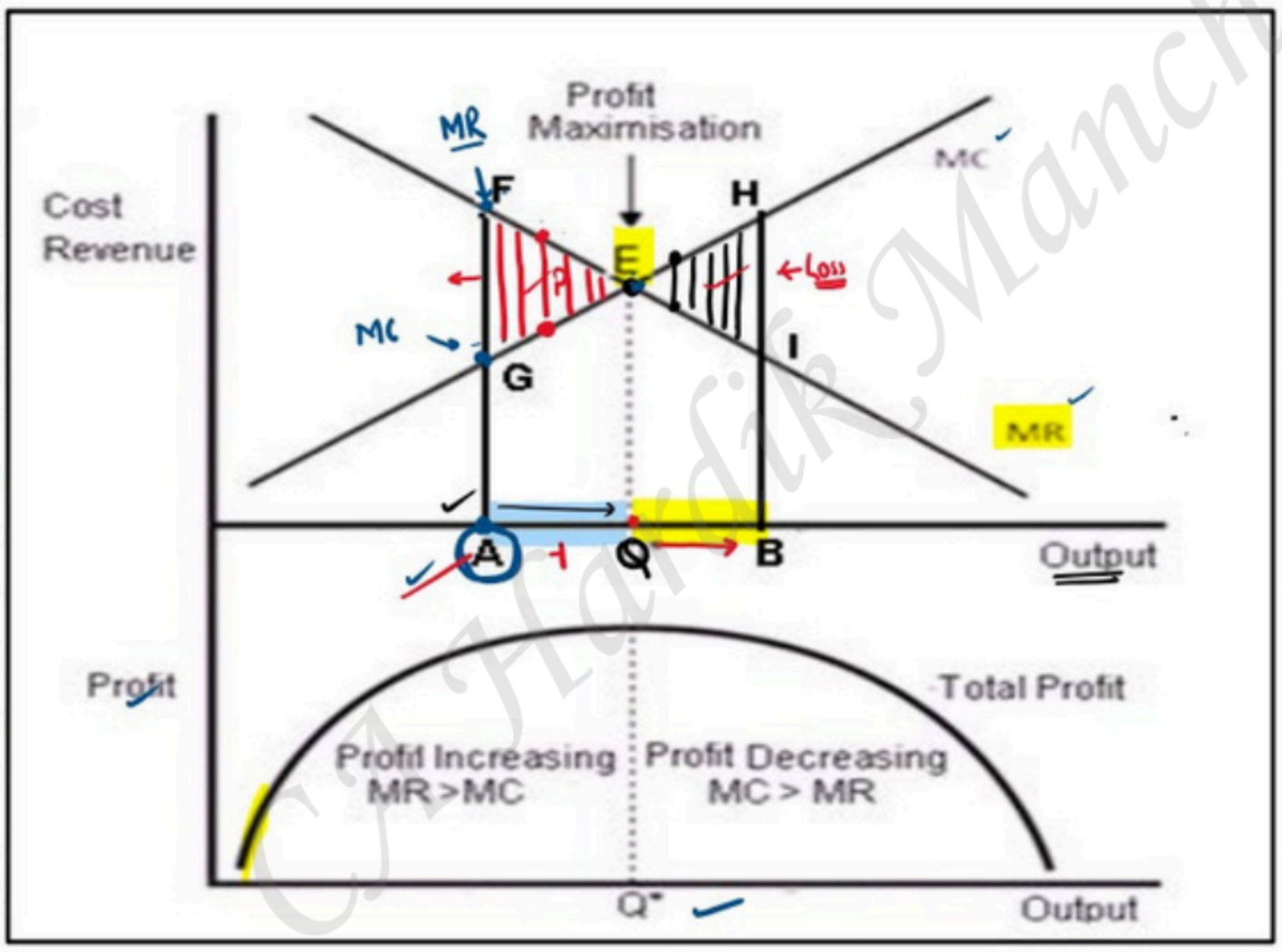
- Normal profit
- Zero economic profit.

4. Price | AR > ATC

- Positive eco. profit
  Super Normal profit

2] Max profit

$\boxed{MR = MC}$



1. If. MR > MC, produce add. units
2. MR = MC, Max profit

a. for all levels of output less than Q*, add. units of output add more to revenue than to cost
- MR > MC
  Profitable to produce more.

b. If stops at A, firm will be forgoing profit equal to EFG.

b. If stops at A, firm will be forgoing profit equal to EFG.

c. Profits will fall, if greater output than Q is produced.

x — Unit over — x'

MCQs_15th Oct

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MCQs_15th Oct

Multiple Choice Questions

14) Suppose a firm is producing a level of output such that MR > MC, what should be firm do to maximize its profits?

(a) The firm should do nothing.
(b) The firm should hire less labour.
(c) The firm should increase price.
(d) The firm should increase output.

15) Suppose that a sole proprietorship is earning total revenues of ₹ 1,00,000 and is incurring explicit costs of ₹ 75,000. If the owner could work for another company for ₹ 30,000 a year, we would conclude that :

(a) The firm is incurring an economic loss.
(b) Implicit costs are ₹ 25,000. 30,000
(c) The total economic costs are ₹ 1,00,000. 105000
(d) The individual is earning an economic profit of ₹ 25,000.

TR - 1Lac
Exp cost 75000
Acc. outlay
25000 - Acc profit
(-) Imp. (30,000)
5000 - Eco. Loss

Multiple Choice Questions

16) Which is the first order condition for the profit of a firm to be maximum?

(a) AC = MR
(b) MC = MR
(c) MR = AR
(d) AC = AR

17) Suppose that a sole proprietorship is earning total revenues of ₹ 1,00,000 and is incurring explicit costs of ₹ 75,000. If the owner could work for another company for ₹ 30,000 a year, we would conclude that :

(a) The firm is incurring an economic loss.
(b) Implicit costs are ₹ 25,000.
(c) The total economic costs are ₹ 1,00,000.
(d) The individual is earning an economic profit of ₹ 25,000.

Multiple Choice Questions

18) Suppose that the demand curve for the XYZ Co. slopes downward and to the right. We can conclude that

(a) the firm operates in a perfectly competitive market.

(b) the firm can sell all that it wants to at the established market price.

(c) the XYZ Co. is not a price-taker in the market because it must lower price to sell additional units of output. → Pefect Competitive

(d) the XYZ Co. will not be able to maximise profits because price and revenue are subject to change. ↓ MR=MC

Multiple Choice Questions

19) A market structure in which many firms sell products that are similar but not identical is known as

(a) monopolistic competition (b) monopoly

(c) perfect competition (d) oligopoly

20) In a very short period market: Market period

(a) the supply is fixed (b) the demand is fixed

(c) demand and supply are fixed (d) none of the above

Multiple Choice Questions

21) Stock exchange market is an example of

SEBI

(a) unregulated market (b) regulated market

(c) spot market (d) none of the above

22) The market for the ultimate consumers is known as

(a) whole sale market (b) regulated market

(c) unregulated market (d) retail market

Multiple Choice Questions

AC > AR , AR > AC (AFC+AVC) Profit

23) If the average cost is higher than the average revenue then the firm incurs _____

(a) Normal profit (b) Abnormal profit

(c) Loss (d) No profit, no loss

24) The market for the ultimate consumers is known as

(a) whole sale market (b) regulated market

(c) unregulated market (d) retail market

AR = AC . Normal profits

Multiple Choice Questions

25) Women primarily wear Traditional Assamese Saree in Assam & adjoining areas, is an example of:

a) National Market
b) Regional Market
c) Local Market
d) International Market

26) Markets where goods are exchanged for money payable either immediately or within a short span of time:

a) Forward Market
b) Spot Market
c) Both (a) and (b)
d) Neither (a) nor (b)

Multiple Choice Questions

27) When AR = Rs. 12 & AC = Rs. 10, the firm makes:

a) Normal Profit
b) Loss
c) Super Normal profit
d) None of the above

AR > AC

28) Marginal Revenue will be zero if the elasticity of demand is:

a) Equal to zero
b) Equal to 1
c) Greater than 1
d) Less than 1

$MR = AR\left[\frac{e-1}{e}\right]$

Multiple Choice Questions

29) On the basis of nature of transaction, the market is classified into:

a) Regulated & Unregulated Market
b) Wholesale & Retail Market
c) Spot & Future Market
d) None of these

30) If the price elasticity of demand of a product is -3, what should be the price of the product for its MR to be Rs. 20?

a) Rs. 10 per unit
b) Rs. 20 per unit
c) Rs. 30 per unit
d) Rs. 40 per unit

AR

$MR = AR \times \left[\frac{e-1}{e}\right]$

$20 = AR \times \left[\frac{3-1}{3}\right]$ $\frac{20 \times 3}{2}$

Multiple Choice Questions

Ignore Test

31) Assume that when price is Rs. 100 per unit, the quantity demanded is 900 units. When price falls to Rs. 90

a) Regulated & Unregulated Market
b) Wholesale & Retail Market
c) Spot & Future Market
d) None of these

32) At shut down point:

a) Price is equal to AVC
b) Total Revenue is equal to TVC
c) Total loss of the firm is equal to TFC
d) All of the above

TR TVC

Price AR = AVC

Shut down — Loss. FC

Continue — FC

Multiple Choice Questions

Total
Average

ATC = AR Normal profit

33) A firm encounters its " shutdown point" when:

a) Average total cost equals price at the profit-maximizing level of output.
b) Average variable cost equals price at the profit-maximizing level of output.
c) Average fixed cost equals price at the profit-maximizing level of output.
d) Marginal cost equals price at the profit-maximizing level of output.

34) Suppose that at the profit maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct?

a) The firm should shutdown in order to minimize its losses
b) The firm should raise its price enough to cover its losses.
c) The firm should move its resources to another industry
d) The firm should continue to operate in the short run in order to minimize its losses.

AR > AVC
Shut down ×

Multiple Choice Questions

AR < ATC
FC

35) " I am making a loss, but with the rent I have to pay, I can't afford to shut down at this point of time." If this entrepreneur is attempting to maximize profits or minimize losses, his behaviour in the short run is:

a) Rational, if the firm is covering its variable cost
b) Rational, if the firm is covering its fixed cost
c) Irrational, since plant closing is necessary to eliminate losses ×
d) Irrational, since fixed costs are eliminated if a firm shuts down. Sunk cost

AR > AVC

36) It will be profitable for a firm to expand output till which of the following condition?

a) Marginal revenue is greater than marginal cost
b) Marginal revenue is less than marginal cost
c) Marginal cost is greater than marginal ~~cost~~ Revenue
d) Marginal revenue is equal to marginal cost

× —— ×

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MCQs_9th Oct

Multiple Choice Questions

TR 180 190] 10

1) Assume that when price is ₹ 20, the quantity demanded is 9 units, and when price is ₹ 19, the quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 units to 10 units.

(a) ₹ 20 (b) ₹ 19

(c) ₹ 10 (d) ₹ 1

2) Marginal Revenue is equal to: = $\frac{\Delta TR}{\Delta Q}$

(a) The change in price divided by the change in output.

(b) The change in quantity divided by the change in price. $\frac{\Delta Q}{\Delta P}$

(c) The change in P x Q (TR) due to a one unit change in output.

(d) Price, but only if the firm is a price searcher.

Multiple Choice Questions

3) What is the shape of the demand curve faced by a firm under perfect competition?

(a) Horizontal (b) Vertical

(c) Positively sloped (d) Negatively sloped

4) Which of the following is not a characteristic of a "price-taker"? Perfect Comp.

(a) TR = P x Q (b) AR = Price

(c) Negatively – sloped demand curve (d) Marginal Revenue = Price

Multiple Choice Questions

5) For market, the essential condition is:

a) A particular geographical place
b) Control of the government
c) Close contact between buyers and sellers
d) None of these

6) In Economics, we are concerned with:

a) Value in use only
b) Exchange value only
c) Both value in use and exchange value
d) None of the above

Multiple Choice Questions

Market period

7) In a very short period market:

a) The supply is fixed
b) The demand is fixed
c) Demand and supply are fixed
d) None of these

8) Generally, perishable goods like butter, eggs, vegetables, etc. will have

a) Regional market
b) Local market
c) National market
d) None of the above

Multiple Choice Questions

9) Secular period is also known as:

a) Very short period
b) Short period
c) Very long period
d) Long period

10) Example of a commodity said to have an international market:

a) Perishable goods
b) High value and small bulk commodities - Gold & Silver
c) Product whose trading is restricted by government
d) Bulky articles

Multiple Choice Questions

11) Average revenue curve is also known as:

a) Profit curve
b) Demand curve
c) Average cost curve
d) Indifference curve

12) When e>1, then MR is:

a) Zero
b) Negative
c) Positive
d) One

Multiple Choice Questions

13) If the price of a product is Rs. 20 per unit and its price elasticity of demand is 0.25. Its MR will be:

a) 60
b) 100
c) -60
d) None of these

$20 \times \frac{-0.75}{0.25}$ 3

x—x