

Price Determination in Different Markets

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Date:

- Markets are generally classified into Product market
 & Factor Market
 - ↓
 - Land, Labour, Capital, Enter.
 - ↓
 - Rent, wages, Interest, Profit.

Markets on basis of Time (Alfred Marshall)

- Very short ——— Supply cannot change
- Short ——— can slightly change
- Long ——— can change
- Very long or Secular period ——— can easily change

On the basis of Competition:

Perfect competition

Imperfect competition

Monopoly

Monopolistic

oligopoly

$$1. TR = P \times Q$$

$$2. AR = \frac{TR}{Q} = P$$

AR curve is also Demand Curve

$$3. MR = \frac{\Delta TR}{\Delta Q}$$

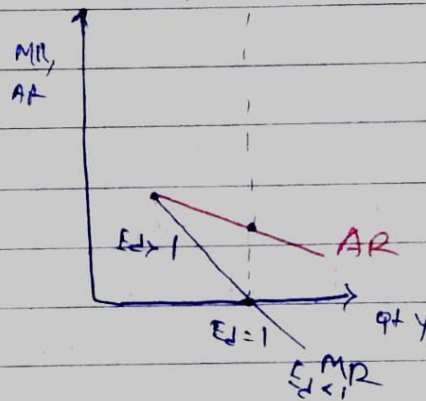
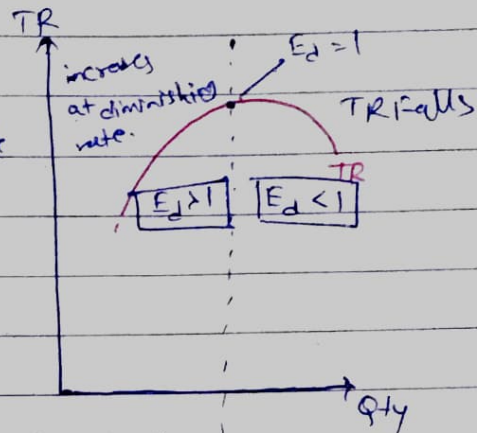
MR is Slope of TR

General Diagram

1. $MR > 0$, TR increases at dim rate

2. $MR = 0$, TR is Max

3. $MR < 0$ (ve) then TR Falls



$$MR = AR \times \frac{E_d - 1}{E_d}$$

Behavioural Principal

For a firm to produce

$$TR \geq TVC$$

For Profit Max

(Producer equilibrium)

$$MR = MC$$

- - - - - x - - - - -

unit - 2 : Determination of Price

All diagrammatic

unit 3 - Different Markets

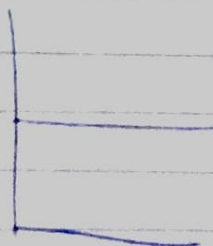
1. Perfect Competition

- Ideal Market
- Firm is a price taker

$$Price = AR = MR = \text{Demand curve}$$



Parallel to x-axis



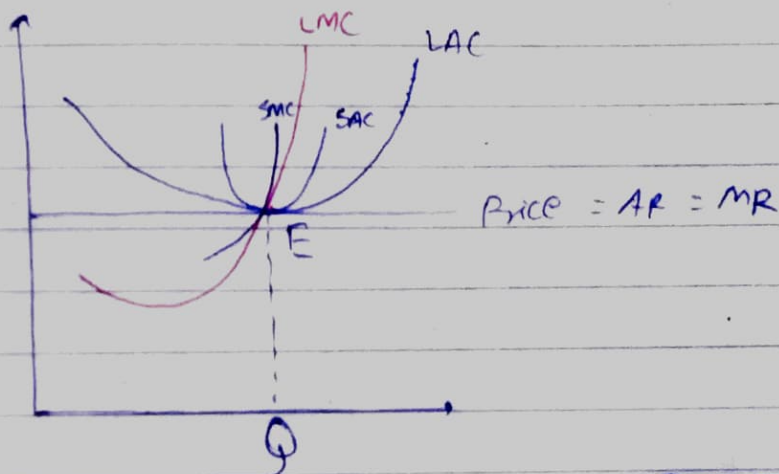
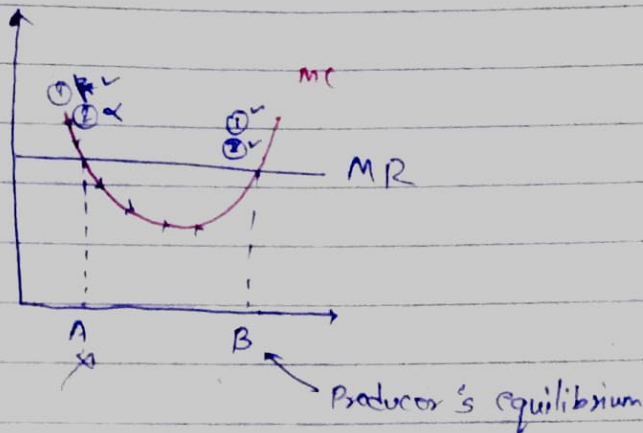
$$\therefore E_d = \infty$$

(Perfectly Elastic)

Equilibrium :-

① $MC = MR$

② MC should have positive slope i.e. MC should cut MR from below



Pt. E denotes

$MC = MR$

Consumer pay min. price

iii) $AC = AR$

Firm earns Normal Profit

iv) $MC = MR$

Max Profit.

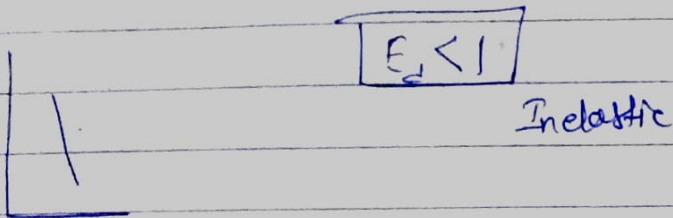
$MC = AC$

Plants used at full capacity

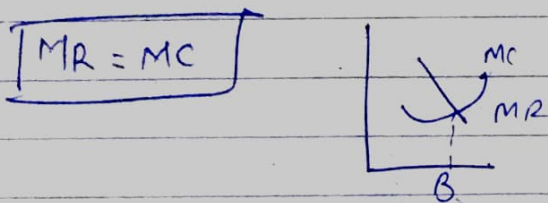
No wastage of Resource

2. Monopoly

- No close substitute $\rightarrow$ Goods Elasticity is **Zero**
- Demand curve (or AR curve) is Negatively sloped
Steeper curve



Equilibrium



Long Run

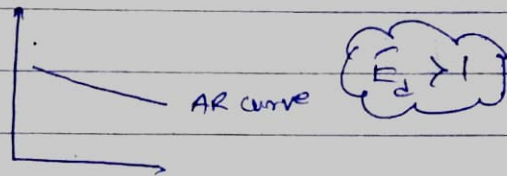
Abnormal Profits Since outside entry is blocked.

In long run need not, to produce at optimum level
(min point of LAC) can produce at sub optimum level

3. Monopolistic Competition

e.g. SOAP industry

- Large no. of buyers & sellers
- Product differentiation (Close substitutes)
- Normal Profits in Long Run ($AR = AC$)
- Advertising cost is involved
↓
Huge → Non-Price Competition
- Demand Curve is Downward Sloping Flatter Curve.



4. Oligopoly

e.g. Cold Drink industry

- Competition among few

(2-10)
- Predict the reaction of competitor.
- Strategic Interdependence
- Group Behaviour
- Price Rigidity
- Product — Homogeneous or Heterogeneous

Cement,
LPG

Cold Drink
- Difficult Entry.

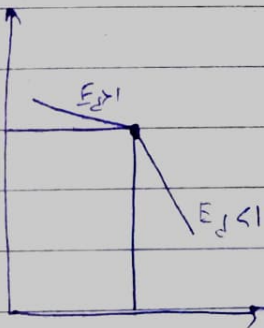
Types

1. Pure or Perfect — Homogeneous products
2. Differentiated — Heterogeneous products
3. Open — New firm can enter
4. Closed — Entry is restricted

5. Collusive - Commonly decide price & output
6. Non-collusive - Compete with each other
7. Partial - Industry dominated by one large firm
8. Full - No leadership
9. Syndicated - Small group control (centralised body)
10. Organised - All firms decide their output.

* Demand Curve

Price rigidity $\Rightarrow$ Demand Curve is Kinked $\Rightarrow$ SWEETZ



<u>Cour NOT model</u>	<u>Stackelberg's model</u>	<u>Bestrend Model</u>
each firm decides its <u>output</u>	Leader decides <u>output</u>	each firm decides its <u>price</u>