CHAPTER – 4 : Price Determination in Different Markets

Unit -1 Meaning and Types of Market

- "Markets are Collection and Buyers and Sellers with Potential to trade."
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  - Exchange Value (price)- Command over commodities,
  - Value in use- Utility
  - Value in Exchange- Amount of goods/services which we may obtain in exchange of a thing.

CLASSIFICATION OF MARKET

General classification
- **Product Market** – House holds buys goods/service from the firm
- **Factor Market** – Firms buy resources to produce goods/ services.

Basis-Geographical Area
- **Local Market** – Highly purchasable/ bulky goods
- **Regional Markets** – Large market size with caried demand characteristics
- **National Markets** – Goods whose trading is restricted to the country
- **International** – markets high vale & small bulk commodities e.g. gold

Basis- Transactions
- **Spot/Cash Market** – Goods are exchanged for money payable immediately on short time span
- **Forward/future Market** – Contract with promise to pay & deliver goods at some further date

Basis- Time
- **Very short period Market** – Supply is fixed
- **Short period Market** – Firms buy res resources to produce goods/ services
- **Long period Market** – Supply can be fully adjusted
- **Very Long period Market** – secular movement are recorded

CLASSIFICATION OF MARKET

Basis- Regulations
- **Regulated Market** – Statutorily regulated to curb unfair practices
- **Unregulated Market** – Free market with no stipulation on transactions

Basis- Volume of Business
- **Whole Sale Market** – Commodities are bought and sold in bulk
- **Retail Market** – Commodities are sold in small quantities

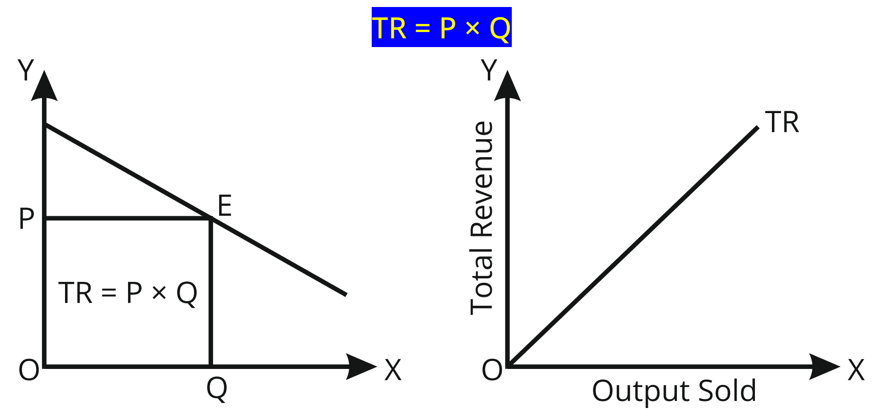
Basis- Competition
- **Perfectly Competitive market**
- **Imperfectly Competitive market**

Market Types					
	Basis of difference	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
1	No. of Sellers	Very large	Large	Small No.	One
2	Product Differentiation	None	Slight	None to Substantial	Extreme
3	Price Elasticity of Demand of a Firm	Infinite	Large	Small	Small
4	Degree of Control over price	None	Some	Some	Very Considerable

Concept of TR, AR, MR

Total Revenue: It is the amount/money realized/received by selling certain units of goods.

$$TR = P \times Q$$



Average Revenue: Revenue earned per unit of output.AR is always equal to price. AR curve is also the firms demand curve.

$$AR = \frac{TR}{Q} \qquad AR = \frac{P \times Q}{Q} = P$$

Marginal Revenue: Change in TR due to sales of additional units of the commodities.

$$MR = \text{change in TR/change in Q and } MR = \frac{dTR}{dQ}$$

- For one unit change in output-

$$MR_n = TR_n - TR_{n-1}$$

TR = when sales area at rates of n per period.

TR = when sales area at rates of n-1 per period.

- AR keeps falling,

$$P \propto \frac{1}{\text{Quality Demand } (Q_d)}$$

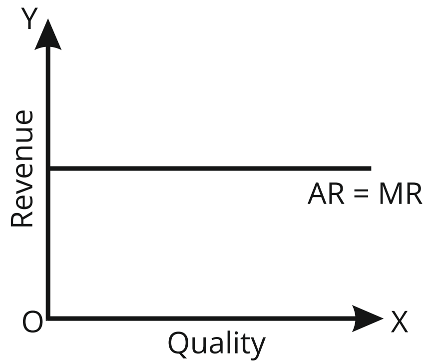
- MR keeps falling, becomes 0 & after that becomes negative.

- TR at any particular level is sum of MR,

$$TR = \Sigma MR$$

- In case of constant AR,

$$AR = MR$$



When price remains constant, MR = AR and thus AR & MR curve will coincide and will be horizontal.it happens in perfect competition.

Relationship B/W TR, AR, MR & Price Elasticity of Demand

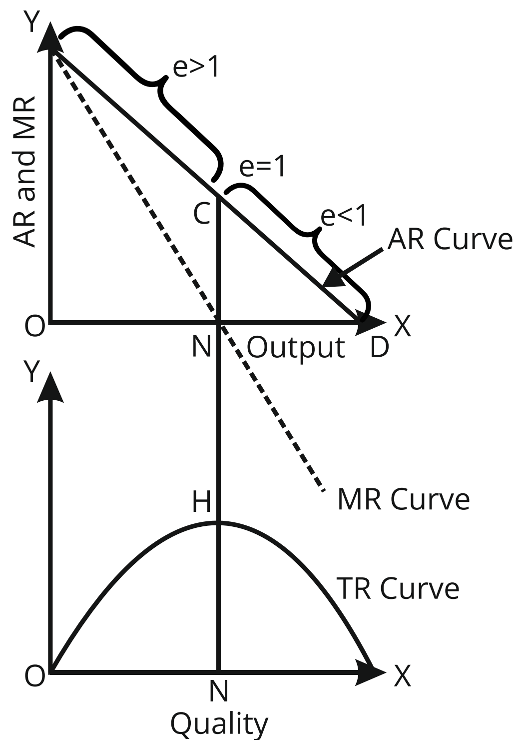
- MR, AR and e (Price elasticity) are related through:

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

e = 1, MR = 0 and TR is maximum

e > 1, MR will be +ve and TR rises

e < 1, MR will be -ve and TR falls



- DD is the AR/Demand Curve
- At quantity greater than ON, the MR curve goes below X-axis
- Beyond ON level of output, TR curve has –ve solpe

Behavioural Principles

Principle 1- A firm should not produce at all if its total variable costs are not met.

- A firm (competitive) should shut down if price is below AVC.

ATC>AR>min. AVC	P=min. ATC	P>ATC
Covers it variable Cost and some but not all of its fixed costs	Covers both fixed and variable cost, earns normal / 0 economic profit	Covers full cost, earns +ve economic & super normal profit

Principle 2 - The firm will be making maximum profits by expanding output to the level where MR = MC.

- It will pay firm to produce additional units of output, MR > MC, i.e. additional units add more to revenue than cost.