

Qh 04 :- Price Determination in Different Market

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Unit 01 :- Meaning & Types of Markets

- **Free Goods** → Free or having 0 price & X take any payment for them ex sunlight, air etc
→ abundant in supply + X have scarcity
 - **Economic Goods** → Scarce in relation to their demand + Opportunity cost
 - **Value in use** → Refers to ^{जब हमारे sentiments होते हैं किसी चीज में तो हम उसे किसी भी value में लेते हैं जिसे हम satisfaction मानते हैं} Usefulness / utility → the attributes which a thing may have to satisfy human needs. For GF के लिए हम कुछ लेना है।
→ Sentimental values ✓
 - **Value in Exchange** → Value of Goods & Services → obtained in the Market → Exchange of a particular thing
→ असा मूल्य को Market में कुछ लेना है तो मैं किसी Pair, दुग्गा
→ Economic value ✓ + Opportunity cost of money
→ Universally accepted property
- In Economics concerned only this value → Determined in the market

- **Market** → Collection of Buyer + Seller → with potential to trade ✓
→ In other words → All those Buyer + Seller → of GSS who influence price
→ market bargaining nature

Elements of a Market :-
 (i) Buyer & Sellers
 (ii) A product or Service
 (iii) Bargaining for a price
 (iv) Knowledge about Market conditions
 (v) One price for a product or Service at a given time.

- ★ **Classification of Market**
 - Product Market → Household buy the GSS
 - Factor Market → Firm buy the Resource they need (Factor inputs) → ex Land, Labour etc.
- On the Basis of Geographical area

- **Local Market** → Buyer + Seller → Ltd to local area or region
→ Generally → Highly perishable goods + bulky articles के लिए होती है ये market
- **Regional Market** → Cover a wider area → Few adjacent cities, parts of states, Cluster of states
→ Size of the market is generally large + Nature of Buyer may vary in their Demand characteristics
→ For Investment Assart सर्वे

• National Markets → Demand for a commodity or services → Ltd to national boundaries of a country → Means 4th country market & Buy & Sell Product
 For ex - Hindi Book

• International Market → Said → When it is exchanged internationally
 Usually → high value small bulk commodities → are demanded & trade internationally
 For ex - Gold & Silver

→ On the Basis of Time → Alfred Marshall

• Very Short period Market (Market Period) → Refers → Supply → Fixed ✓
 Perishable → eg vegetables, fruits etc
 Price is dependent on Demand → D ↑ P ↑
 ↳ But supply is fixed

• Short Period Market → Period → Which is slightly longer than the very short period
 Supply ↑ → By variable factors ↑ (Same as Short Run)
 Supply moderately adjusted → Δ in Price due to Δ in Demand → are less compared to Very short period market

• Long Period Market → Same as long run + Supply is fully adjusted
 Interaction between long run supply + long run demand → Determines ✓
 long run equilibrium price Normal Price

• Very long - period or Secular Period

→ On the Basis of Nature of Transaction

• Spot or Cash Market → Where goods are exchanged → Money either immediately or within short span of time
 ↳ ex - grains sold in the market

• Forward or Future Market → Transaction involve contract + Promise to pay + Deliver goods at some future date
 ↳ ex - Shares

→ On the Basis of Regulation

- Regulated Market → transactions are Statutorily Regulated → Put an end to unfair practices
For ex SEBI for Stock exchange

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- Unregulated Market → **Free Market** ✓
No stipulations on the transactions → For Weekly Markets

→ On the Basis of Volume of Biz.

- Wholesale Market → Commodities Bought & Sold → In Bulk or large qⁿ
Transactions between B2B

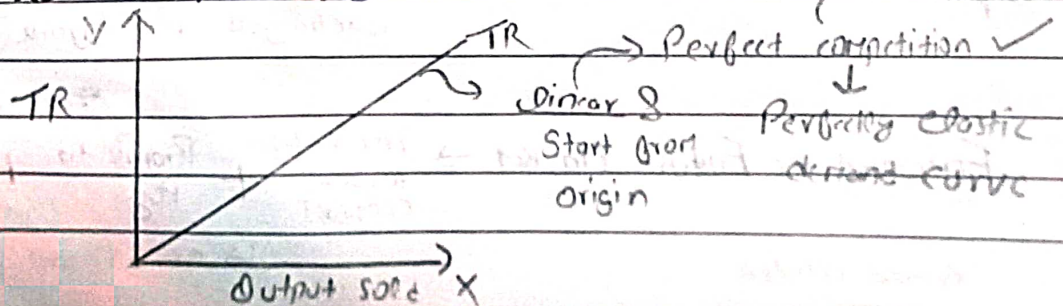
- Retail Market → Commodities Sold in small qⁿ
Transactions bet. B2C

1.1 Types of Market Structures

Assumption	Market Type			
	Perfect Competition	Monopolistic Comp	Oligopoly (10, 10, 10)	Monopoly
No. of Seller	Very large (Identical Product etc)	Large	Small No.	One
Product Differentiation	None	Slight (Similar Product)	None to Substantial	Extreme
Price Elasticity of Demand	∞	Large	Small	Small
Degree of Control over Price	None	Some	Some	Very Considerable

1.2 Concepts of TR, AR & MR

→ Total Revenue (TR) → Price × Qⁿ sold



Good Write

→ Average Revenue $\left\{ \begin{array}{l} \text{Revenue earned/unit of output} \\ \text{TR} \text{ or } \text{AR} = P \text{ (Price of one unit of output)} \end{array} \right.$
 AR curve is also the Firm's Demand Curve

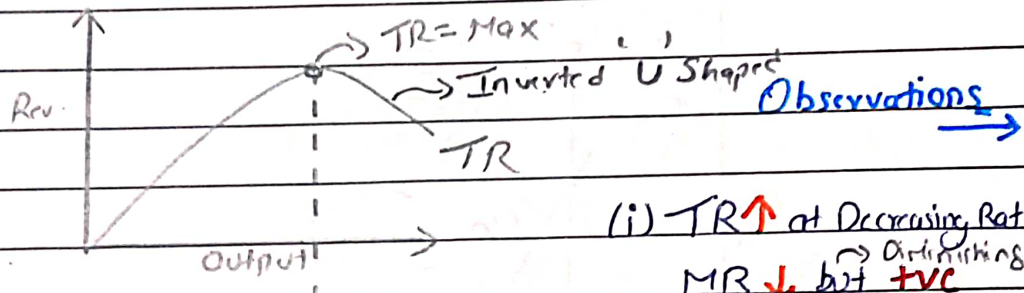
→ Marginal Revenue $\left\{ \begin{array}{l} \Delta \text{ in TR resulting from sale of an } \uparrow \text{ unit of commodity} \\ \frac{\Delta \text{TR}}{\Delta Q} \text{ \& Slope of TR} \end{array} \right.$

Note Imperfect competition
 * AR ↓ MR ↓ (AR > MR)

Price constant
 Perfect competition
 * MR = AR = Price

* AR = Price ~ All types of market

★ Imperfect Competition Curve

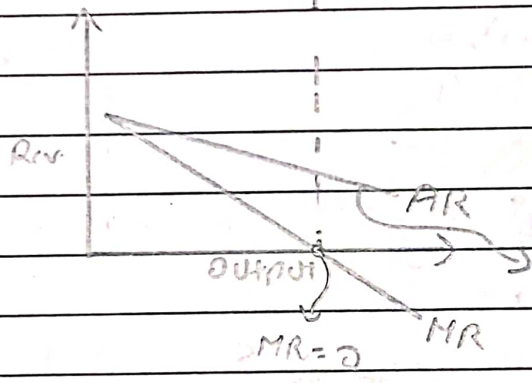


(i) TR ↑ at decreasing rate due to MR ↓ but +ve

(ii) MR = 0 → TR = Max

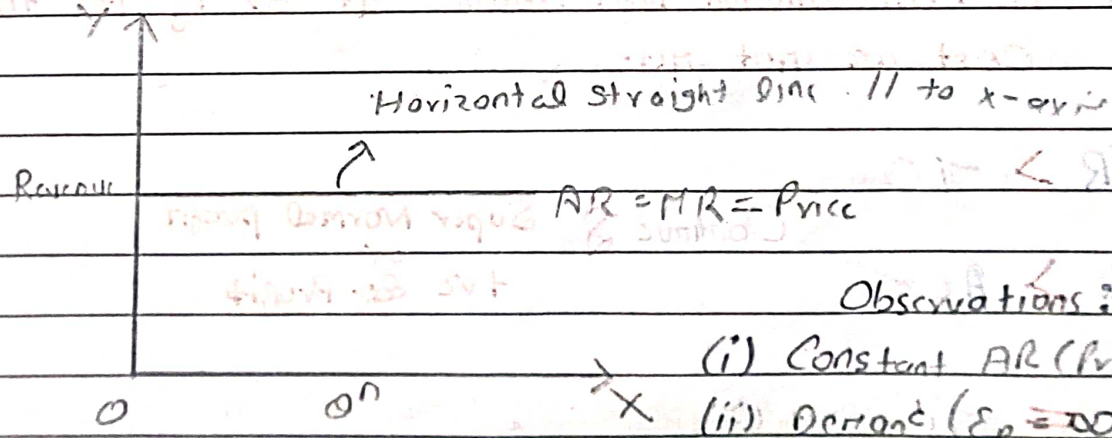
(iii) MR = -vc → TR ↓

(iv) AR ↓ + MR ↓ but AR > MR



More rapidly
 Bcz any redn in price applies to ALL units sold

★ Perfect Competition Curve



Horizontal straight line // to x-axis

AR = MR = Price

Observations :-

(i) Constant AR (Price) schedule

(ii) Demand ($\epsilon_p = \infty$)

(iii) TR ~ Upward sloping straight line

★ Relationship Between AR, TR, MR & Price Elasticity of Demand

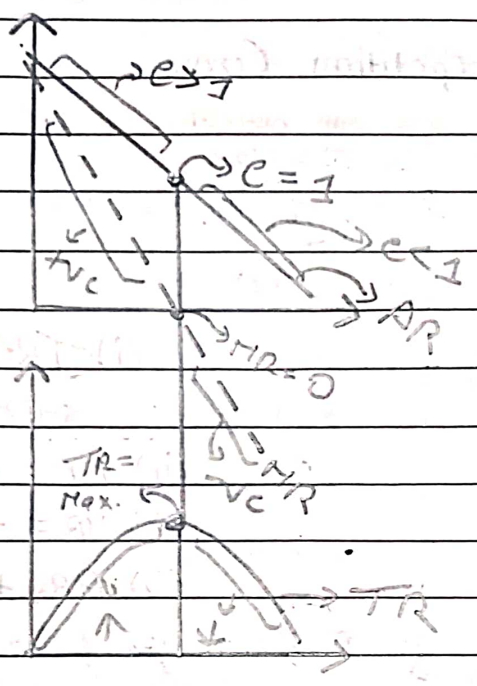
→ $MR = AR \times \frac{e-1}{e}$ * e = Price Elasticity of Demand

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★ Imp Observation of this Formula

Formula mei Minus sign ignore krna

	MR	TR
• $e = 1$	0	Max.
• $e > 1$	+ve	Increase
• $e < 1$	-ve	Decrease



★ Behavioural Principles

Imp Principle 1: A Firm should not produce at all if its total variable cost are not met.

1. $TR > TC$
 $AR > AC$ → Continue & Super Normal profit or +ve Eco. Profit

2. $TR = TC$
 $AR = AC$ → Continue & Normal Profit or zero eco. Profit

Good Write

3) $TR < TC \rightsquigarrow (AR < AC)$ \rightarrow $TR < TVC \rightsquigarrow (AR = AVC)$

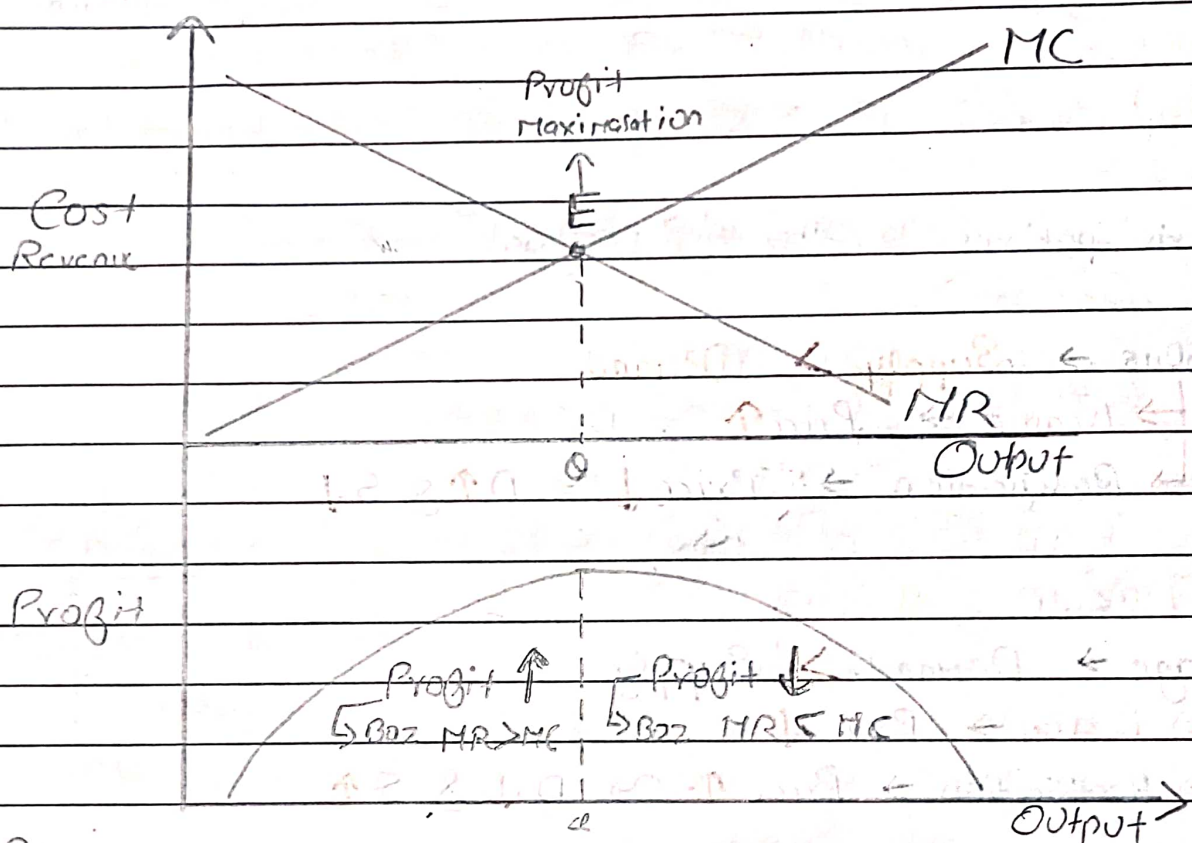
$TR > TVC$ \rightarrow $AR > AVC$ \rightarrow Continue
 $TR < TVC$ \rightarrow $AR < AVC$ \rightarrow Shut Down

Shut Down Point
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* AT Shut Down Point
 \rightarrow Price = AVC
 $\rightarrow TR = TVC$
 \rightarrow Total Loss = TFC

* Shut down in long run $\Rightarrow AR = ATC$

Principle 2 :- The Firm will be making Maximum profits by expanding output to the level where Marginal Revenue is equal to MC.



So * $[MR = MC] \rightsquigarrow$ Firm will Maximize profit at the Profit

\hookrightarrow Means when $MR = MC$ then profit is maximum. Firm will Profit \uparrow