# Economics Unit - 3

Perfect competition | Monopoly | Monopolistic competition | Oligopoly

Perfect competition (Hypothetical) | Monopolistic | Oligopoly | Monopoly (Hypothetical)

આ બંને extreme market form છે.

## * Perfect competition :

Ex :- Agricultural Products, Stocks (Bonds) metals etc.)

1). very large Number of buyer & seller :-
=) individual buyer or individual seller cannot influence the price

2). Homogeneous Products :-
=) IDentical goods i.e Perfect substitutes.
So Price remains constant.

3). free entry & exits of firms :-
firms will earn normal Profits in long run.

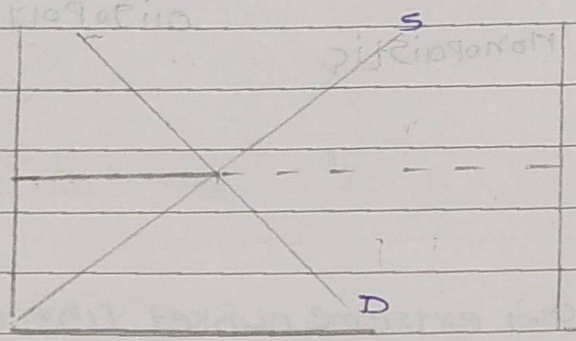
=) first 3 featurs are considered as Pure competition.

4). Perfect knowledge of Market :

5). ~~free~~ Perfect mobility of factors of Production — eg. Labour.

6). No Transportation / selling cost is involved. (Advertisement)

7). firm is price taker




Price maker ⇒ Industry

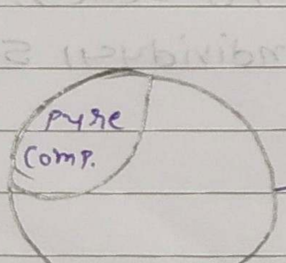
firms ← Price Takere

Industry = group of firms

* Perfect market is also the IDEAL Market

Competitive market.

*




All Perfect competition are Pure comp. — yes

All Pure competition are Perfect comp. — No

* In Perfect competition :-

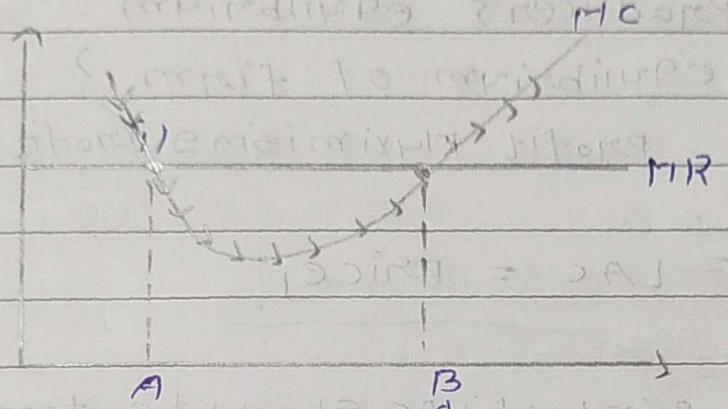
Price = AR = MR = Demand curve "parallel to X-axis" $\boxed{\therefore E_d = \infty}$ [Perfect Elastic]

* Equilibrium (Producer's equilibrium)

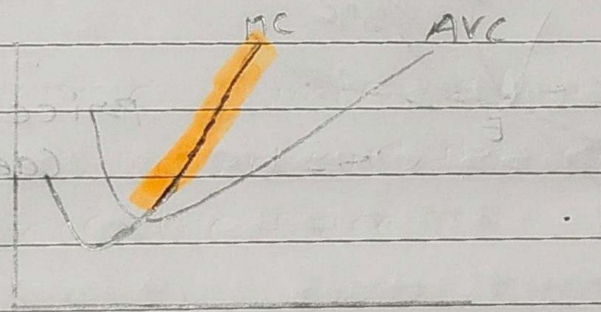
i.e Profit maximising point).

i). MC = MR

ii). MC should have positive slope i.e MC should cut MR from below (After intersection MC > MR).




* Supply curve (perfect competition).




The rising portion (after intersection) of MC is supply curve

* Profit of competitive firm (perfec competition)

→ Abnormal profits (super normal) $\boxed{AR > AC}$

→ Normal profit $\boxed{AR = AC}$

→ losses $\boxed{AR < AC}$

* Price = ₹10
AC = ₹12
AVC = ₹9 } Analysis

Should the firm ~~Should~~ continue??

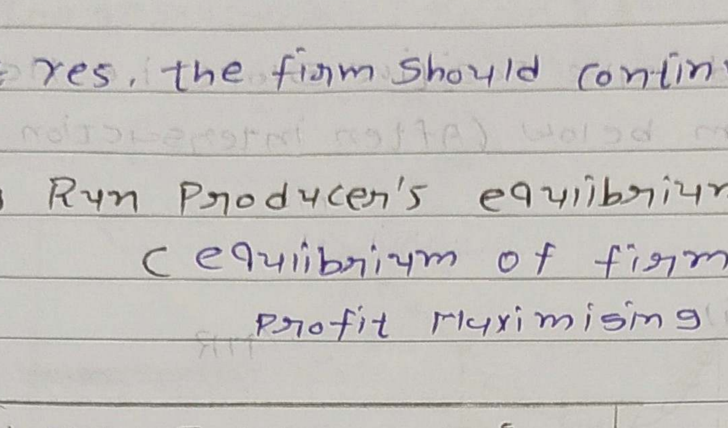
=) Ans: Yes, the firm should continue. $\boxed{\text{Price} > \text{AVC}}$

* long Run Producer's equilibrium
(equilibrium of firm)
Profit maximising profit

$$\underbrace{\boxed{LMC = LAC = Price}}$$

i.e minimum point of LAC should be tangent to demand curve (AR curve) i.e price

figure - 1A




Also
SMC = SAC = LMC = LAC = Price = MR.

=) Minima of LAC & SAC coincide
=) Point E shows optimum cost
=) firm producing Q level of output at optimum cost is called optimum ~~cost~~. firm.

* Long Run equilibrium of industry

- when all the firms earn normal profits

And

- No further entry or exist takes place

=) figure - I A chart explanation:

i). Point E denotes

a). MC = MR

consumer pays minimum Price

b). MC = AC

plants are used at full capacity

i.e No wastage of Resources.

c). AC = AR

firm earns normal profit

d) MC = MR

firm earns maximum profit

X — X — X — X — X —

## MONOPOLY

Mono → single

Poly → seller

=) Monopoly means "alone to sell"

=) Here firm and industry is one & the same thing

industry = group of firm (1)

* **features:**

1). single seller:-

Price maker i.e substantial control over supply.

2). Restriction in entry

3). No close substitutes:-

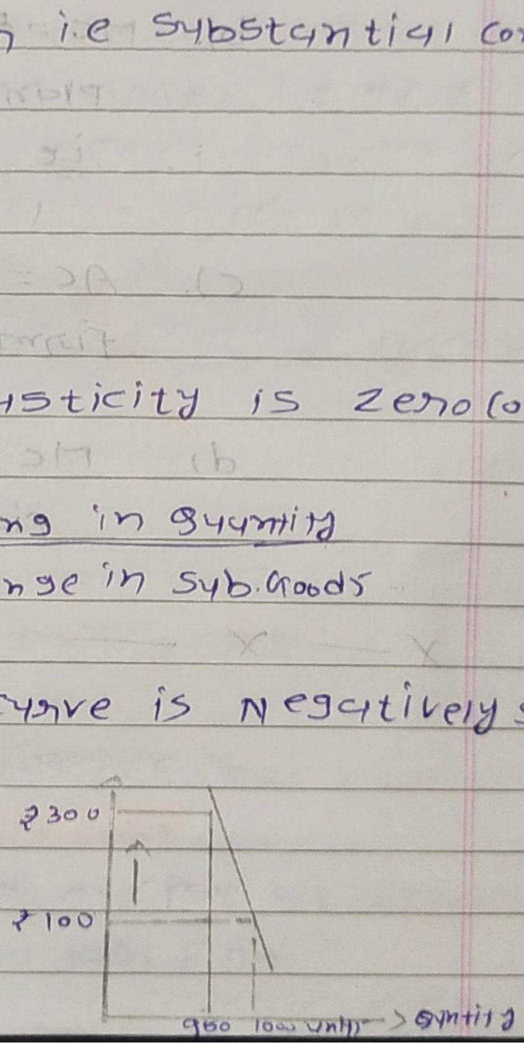
Cross elasticity is zero (0)

$$\frac{\%\ \text{change in quantity}}{\%\ \text{change in sub. goods}}$$

=) Demand curve or AR curve is Negatively sloped

STEEPER curve

Ed < 1
(inelastic)

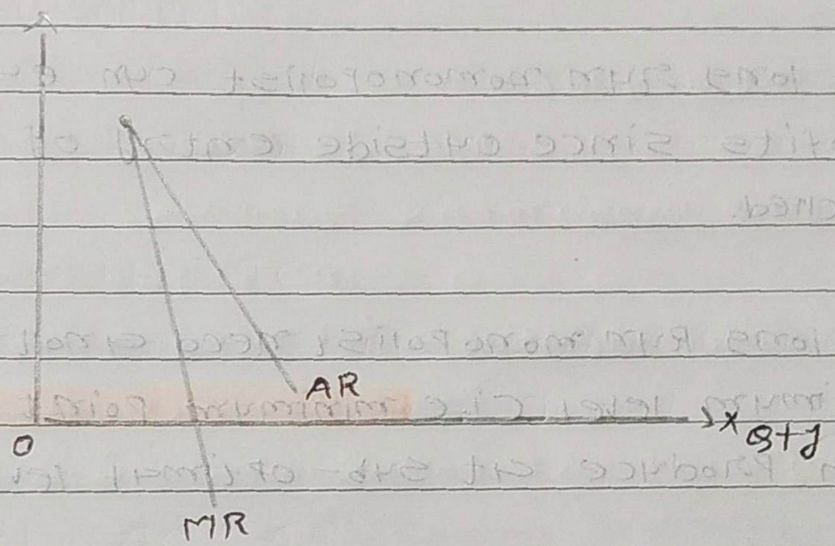


4). Monopolisti has market power i.e changing price above MC

5). Monopolist may adopt price discrimination.

6). A monopolist can Also incure losses (AR < AC)

7). Relation of AR & MR




=) AR & MR curve both are negatively sloped.

=) MR curve lies half way between AR curve & y axis

=) AR curve can not be zero but MR ~~curve~~ can be zero or negative

* Equilibrium (Profit Maximisation)

MR = MC

* Profits
    - → Abnormal Profit ∴ AR > AC
    - → Normal Profit ∴ AR = AC
    - → Losses ∴ AR < AC

* long Run:

=) In long run monopolist can earn abnormal Profits since outside entry of new firm is blocked.

=) In long Run monopolist need not produce at optimum level (i.e minimum point of LAC) He can Produce at sub-optimal level also.

* How do monopoly arise ??

=) Strategic Control over Resources

=) Goverment granting exclusive rights (Patents or copy rights)

=) Business combinations (cartel)

=) Extremely large Startup costs.

=) firm may use anti competitive practice like

Predatory / limit pricing.

* Price discrimination :-

=) objectives :-

=) to earn maximum profits
=) to capture foreign markets
=) to enjoy economics of scale / dispose excess stock.

=) Price discrimination is possible only under the following conditions :-

- Monopoly must exist
- Seller Should be able to divide the market.
- ~~Price~~

=) Price elasticity is different in different sub market

- No market arbitrage

$\boxed{\text{market}}$

Sub market A — Price ₹ 70 — Buy

sell — Submarket B — Price ₹ 100

Price elasticity is elastic (ed > 1)

Price elasticity is inelastic (ed < 1)

+ Higher Prices where demand is inelastic.

=) Price discrimination may relate to:-

a). Time
b). size of purchase
c) income etc. etc

=) Degrees of price discrimination (A. C. pigou)

• first degree:-
Price is such that it take away entire consumer's surplus.

• Second degree:-
Price is such that it takes away only part of consumer's surplus.

• Third degree:- e.g popcorn in cinema hall

Price varies because of location or costomer segment etc.

X — X — X — X — X — X —

# Monopolistic competition

=) This market is a blend of monopoly - perfect competition

=) eg :- Shop industry.

* **Features** :-

1. Large number of buyer & seller :-
   (individual buyer or seller has a very small share in market

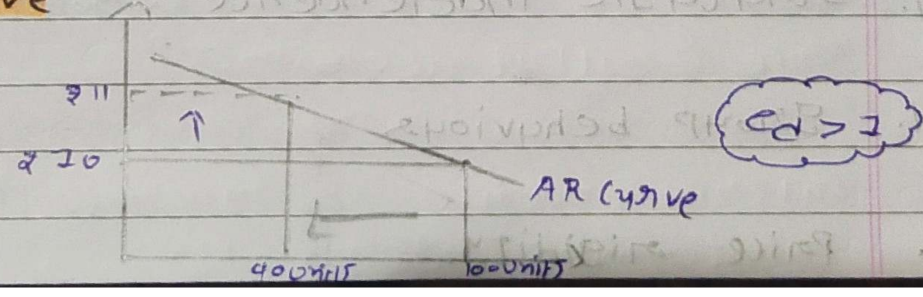
★ 2. Product differentiation :-
   Hetrogeneous Products (similar Products)
   • Products are close substitutes.

3. free entry & exist of firms :-
   Normal Profits in long run (AR = AC)

4. Selling / Advertising Cost is involwed
   Huge વધારે

5. Non Price competition - ~~Price war~~

★ 6. Demand curve (AR curve) is Downward Sloping flater curve



* Equilibrium (Profit maximisation)

- MC = MR
- MC should cut MR from below.

* Profits;

- → Abnormal Profit ∴ AR > AC
- → Normal Profit ∴ AR = AC
- → Losses ∴ AR < AC

* long Run:

In long Run all the firms earn **zero super normal profits** (i.e normal profits)

— x — x — x — x — x — x

* OLIGOPOLY

(eg. cold drink industry)

1). Competition among few

2). strategic independence (রণকৌশল (অপর নির্ভর)

3). group behaviour

4). Price rigidity.

5). Product may be Homogeneous or heterogenous.

6). difficult entry

7). Heavy selling & advertising cost

⇒ Types of oligopoly:-

1). Pure (or Perfect):-
deals in homogeneous products.

2). Differentiated (or imperfect):-
deals in hetrogenous products

3) Open - New firm can enter

4). Closed - Entery is restricted

5). Collusive - commonly decide Price & output.

6). Non collusive (competitive) - Compete with each other.

7). Partial - industry is dominated by one large firm.

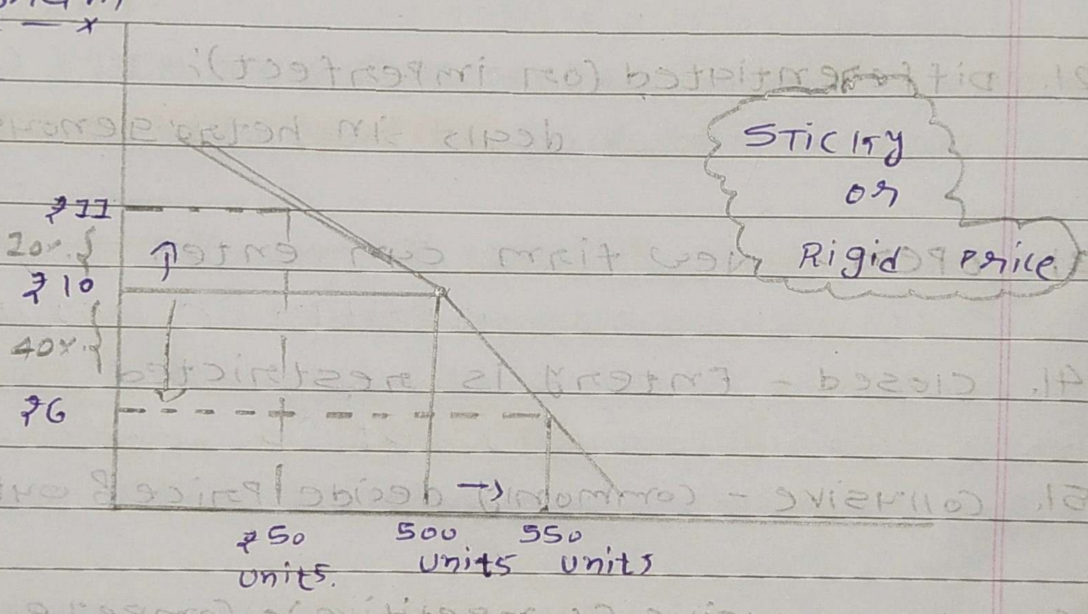
8). Full - No leadership

9/. Syndicated :- Small group control it i.e centralised body

10/. organised - all firm decide their output centrally organised

* Demand curve :-

- because of price rigidity demand curve is kinked - given by sweezy
- Diagram




=> Response to price increase is more than response to price decrease.

* Price & output decision.

i). interdependence is ignored then output is determind by MC = MR ii). Oligopolist tries to predict the relation of his competitor.

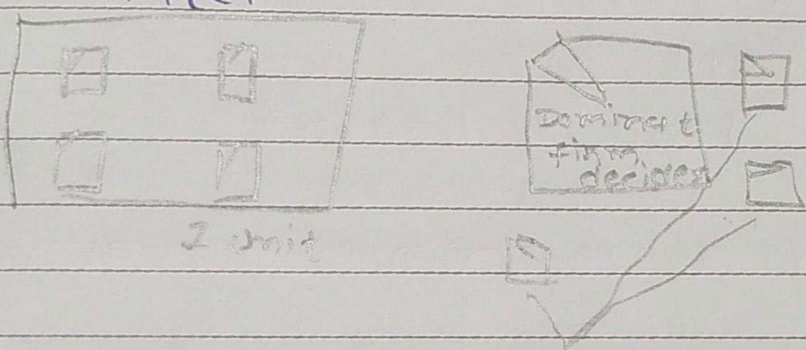
| Cournot model | Stackelberg's model | Bertrend model |
|---|---|---|
| each firm decides its output | Leaders decides output | each firm decides its price |

=) Oligopoly firm acts as monopoly organisation and fix their prices to enjoy maximum profits.

* Price leadership → Barometric price leadership

Price leadership → Price leadership.

Price leadership → cartel




Old experienced most respected firm becomes price leaders.

fringe firms

* other market firms :-

1). Duopoly :- Two seller (firms).

2). Monopsony: single buyer.

3%. oligopsony :- few large buyers

4%. Bilateral monopoly :- single seller & single buyer.