

## Meaning & types of Market

Economic Goods → scarce in relation to their demand & no. of opportunities.  
Exchangable in the market & command a price.

by Ricardo :- Value in use :- usefulness or utility, attribute to satisfy human needs.  
Value in exchange :- Economic Value,  
Amt. of GDS may obtained in market in exchange of that thing.

Market economy → Amt. of currency → universally accepted measure of economic value.

### Market

- Buyers & sellers (Intention to trade)
- Product or service → Bargaining → knowledge abt. market conditions
- One price for a product or service at a given time.

### Markets

#### Product Markets

- Household buy GDS they want from firms.
- Allocate goods to consumers.

#### Factor Markets

- Firms buy resources they need to produce GDS.
- Allocate productive resources to producers.



## Classification of a market

### On the basis of geographical area

- 1) Local market:- limited to local area or region, Highly perishable goods  
bulky articles  $\rightarrow$  trans. uneconomical.
- 2) Regional Market:- cover wide area, size of market is generally large (states, cities).
- 3) National Market:- limited to national boundaries of a country.
- 4) International Mkt:- commodity exchanged internationally,  
Usually high value (gold & silver)  $\rightarrow$  Modern days  $\rightarrow$  Highly perishable goods.

### On the basis of Time (Alfred Marshall)

- 1) Very short period market:- Market period, Supply is fixed.  
Variable factor  $\times$ , Fixed factor  $\times$ , Price dependent on demand.
- 2) Short period market:- Supply can be moderately adjusted by  
VFV, Fixed factor  $\times$
- 3) Long period market:- supply may be adjusted, VFV, FFV  
Interaction of Demand & supply determines Eqb<sup>m</sup> price / Normal price.
- 4) Very long period:- Secular market:- secular movements,  
period is very long, population, capital supply, supply of raw materials.

### On the basis of Nature of transactions

- 1) Spot or Cash market:- money payable immediately or short span of time
- 2) Forward or future mkt.:- promise to pay or deliver goods at some future date.



## • On the basis of Nature of Regulations

- Regulated mkt:- transactions statutorily regulated  
→ end to unfair practices → stock exchange
- Unregulated mkt:- free market, no stipulations on the transactions → weekly markets

## • On the basis of Volume of business

- Wholesale mkt:- sold in bulk or large qty. (B2B)
- Retail mkt:- " " small qty (B2C)

## • On the basis of Competition

→ Perfectly competitive → Imperfectly competitive.

## Revenue Concepts

- Total Revenue:- TR curve is linear & starts from origin.

$$TR = P \times Q \quad TR = \sum MR$$

- Average Revenue:- also known as firm's Demand curve

$$AR = TR/Q$$

$$AR = (P \times Q)/Q = P \quad (AR = P)$$

- Marginal Rev.:- slope of TR (rate of change in TR)

$$MR = \Delta TR / \Delta Q$$

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

★  $MR = \frac{AR(e-1)}{e}$

$e=1$  (Middle pt. on DC)

$MR = AR = 0$  (TR is max.)

$e > 1$  (upper portion on DC)

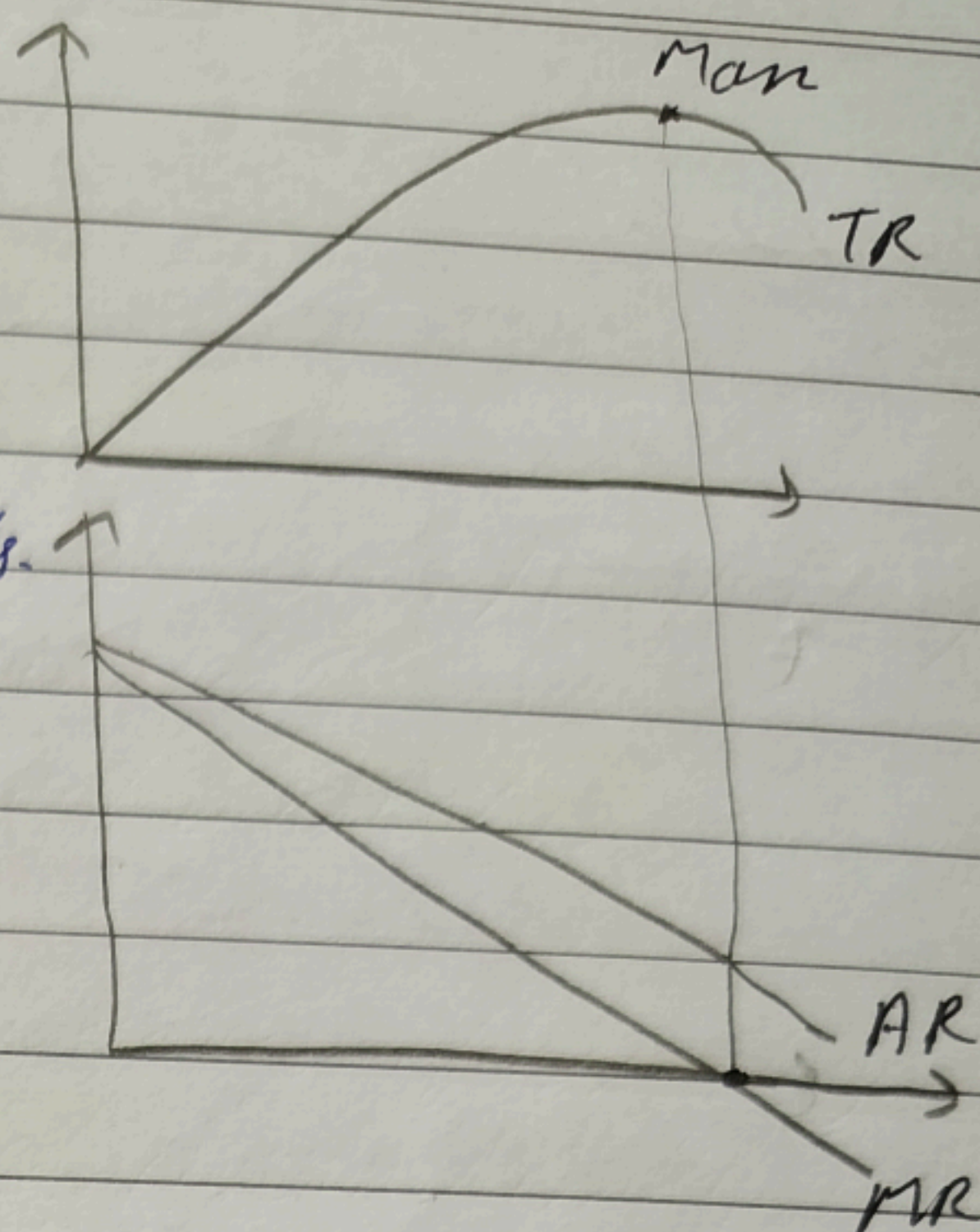
MR is +ve

$e < 1$  (lower portion on DC)

MR is -ve



- 1) AR slope downward due to  $P \propto \frac{1}{Q}$
- 2) MR curve lies below AR curve as it declines more rapidly than AR.
- 3) Divided AR curve & Y-axis in 2 equal parts.



3) TR ↑ (MR is +ve) TR ↓ (MR is -ve)

4) TR ↑ at diminishing rate due to diminishing MR & reaches its max when  $MR = 0$  (i.e. slope of TR is zero)

### ★ Points to remember

- 1) Should not produce → when Total variable costs are not met  
 $Price / AR < AVC \Rightarrow$  Shut down  
 → Minimise loss = Fixed cost

Shut down price =  $Price / AR = AVC$ ,  $TR = TVC$ , Total loss =  $TFC$

$AR > AVC \Rightarrow \checkmark$

$AR < ATC$  [will think] [losses, economic loss]

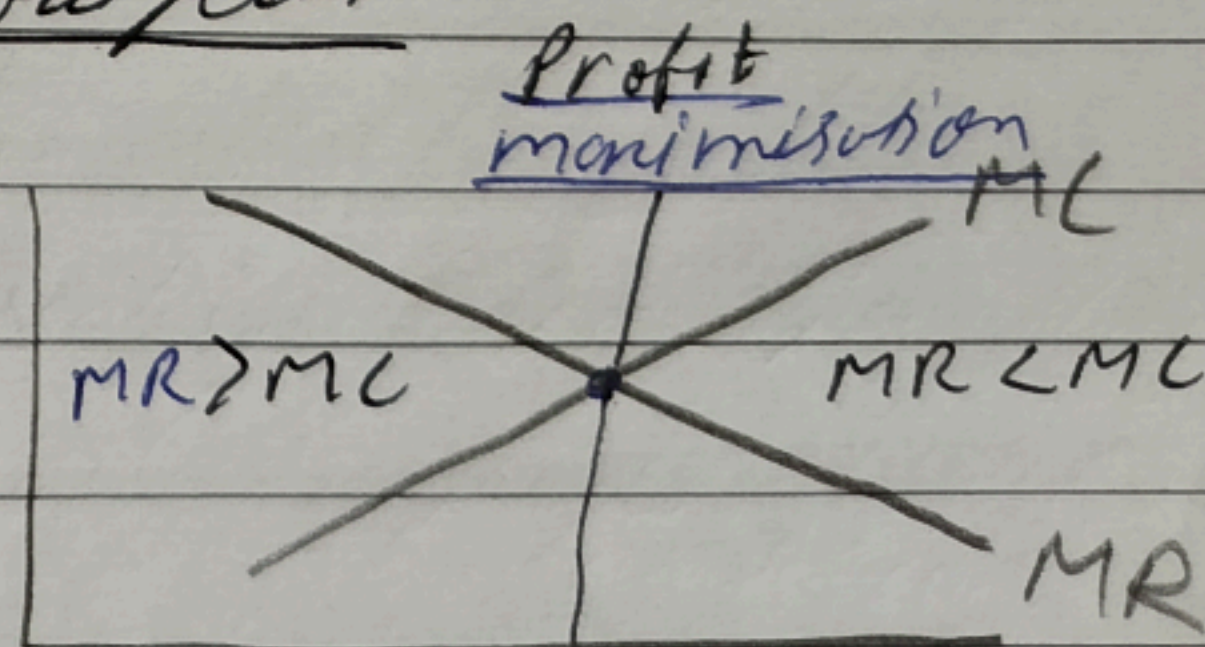
$AR > ATC \checkmark$  [positive eco. profit, supernormal profit]

$AR = ATC \checkmark$  [Normal profit, zero eco. profit]

- 2) Maximum profits → by expanding output at  $MR = MC$

Beyond this  $\Rightarrow MR < MC$

↓  
[Losses]





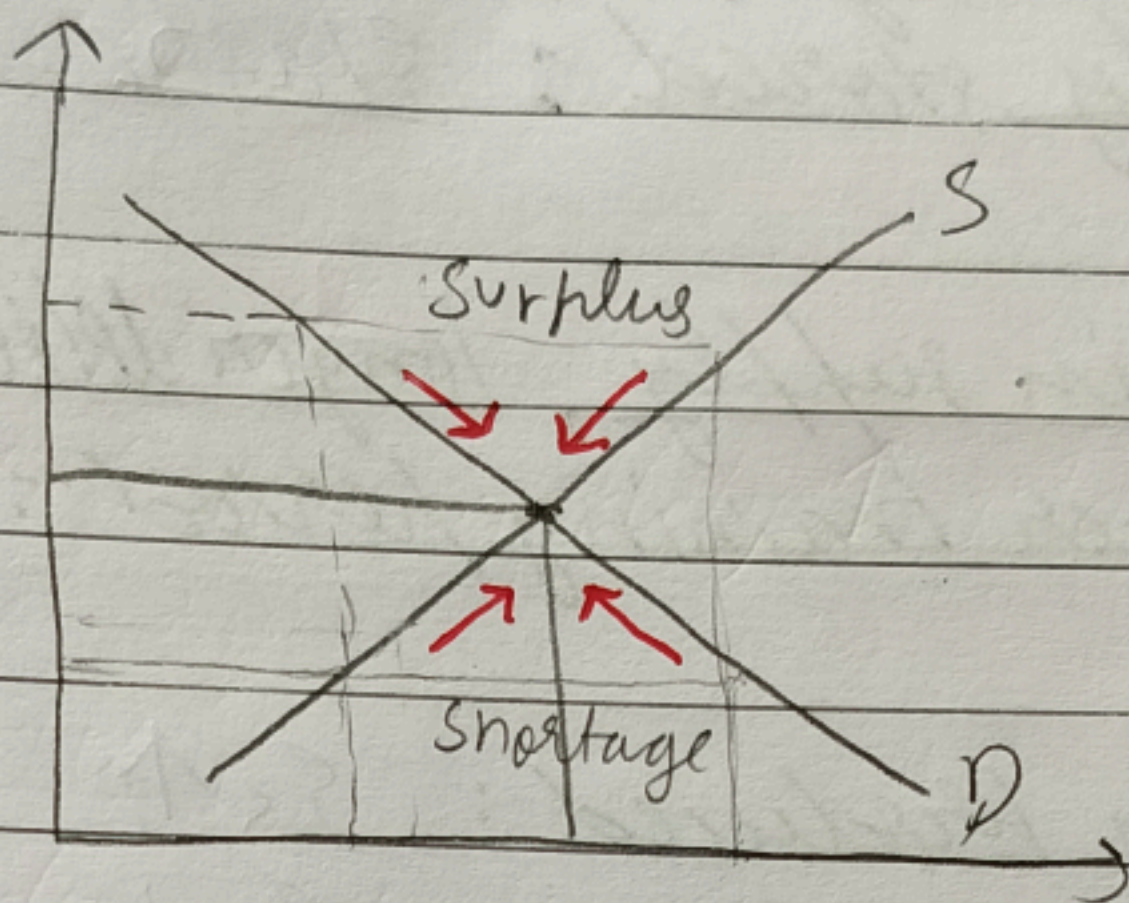
## Determination of Prices ♡

$MP > EP$   $Supply > Demand$   $SURPLUS$

Lower the prices, clear their unsold stock  $\rightarrow$  restore eqm

$MP < EP$   $Supply < Demand$   $SHORTAGE$

Shortage prompts the price to rise  $\rightarrow$  restore eqbm.



★ Outcomes: supply & Demand curves shift in same direction

$\rightarrow$  Both Demand & supply Inc.  $\rightarrow$  Eqbm Qty Inc.

$\rightarrow$  Eqbm price uncertain (By drawing graph)

$\rightarrow$  Both Demand & supply Dec.  $\rightarrow$  Eqbm Qty Dec.

$\rightarrow$  Eqbm price uncertain (determined by graph)

★ Outcomes: supply & Demand curves shift in opposite direction.

$\rightarrow$  Demand  $\uparrow$  and supply  $\downarrow \Rightarrow$  Eqbm price  $\uparrow$

$\Rightarrow$  Eqbm Qty uncertain (draw graph)

$\rightarrow$  Demand  $\downarrow$  and supply  $\uparrow \Rightarrow$  Eqbm price  $\downarrow$

$\Rightarrow$  Eqbm Qty uncertain (draw graph)

FLOWER