Ch 04 :- Price Determination in Different Market

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Unit 01 :- Meaning & Types of Markets

- **Free Goods**
  - Free or having 0 prices & X Make any payment for them ex Sunlight /air etc
  - abundant in supply + X have scarcity

- **Economic Goods**
  - Scare in relation to their demand + Opportunity cost

- **Value in use**
  - Refers
    - usefulness / utility → the attributes which a thing may have to satisfy human needs. For GF के लिए अगर कुछ लेना हो।
    - (जब हमारे Setiments होते है किसी चिज पे तो हम उसे किसी भी value पे ले लेते है जिससे हमे Satisfaction मिला)
  - Sentimental values ✓

- **Value in Exchange**
  - ए of Goods & Services → obtained in the Market → Exchange of a particular thing
    - (अगर मैंने को Market से कुछ लेना है तो मैं किसे Pair dunga — Universally accepted money)
  - Economic value ✓ + Opportunity cost of money
    - (Determined in the Market)
  - In Economics concerned only this value

- **Market**
  - Collection — Buyer + Seller → with potential to trade ✓
  - In other words → All those Buyer + Seller of G&S who influence price (→ proper bargaining karna)

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

★ **Classification of Market**
- Product Market → Household buy the G&S (वो Market जहा pr Producer G&S Sell करता है consumer को)
- 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 characteristic
    - ↓ For traditional Assam Saree

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- National Markets → Demand for a commodity or services → Ltd to national Boundaries of a country ~ Means यहाँ country की Market के Buyer & Seller ही Product sell करते हैं
  For ex: Hindi Books

- 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 ~ DT PT v.v
    ↳ Bcz Supply is fixed

- Short Period Market
  - Period → Which is slightly longer than the very short period
  - Supply may ↑ → 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.
    ↳ इस Period में Supply थोड़ी सी adjust हो सकती है तो Price में कम change आएगा as compare to Market Period.

- 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 Payable either
  - immediately
  - within short span of time
  ↳ ex: Grains sold in the mandi

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

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→ On the Basis of Regulation

unfair practise को रोकने के लिए

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

- Unregulated Market
  - → Free Market ✓
  - → ✗ Stipulations on the transactions ~ For Weekly Markets

→ On the Basis of Volume of Biz.

रिटेलर Bulk में Purchase करते है B2B

- Wholesale Market
  - → Commodities → Bought / Sold → In Bulk or large Q^n
  - → Transactions between B2B

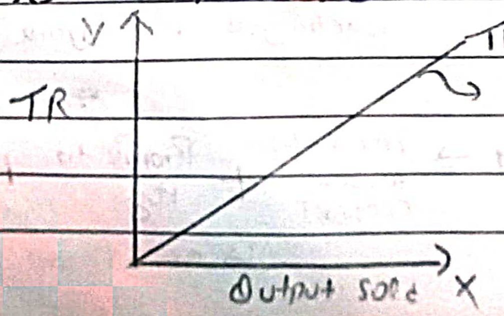
- Retail Market
  - → Commodities → Sold in Small Q^n
  - → Transactions Bet. B2C

1.1 Types of Market Structures

Assumption	Market Type			
	Perfect Competition	Monopolistic Comp	Oligopoly (Jio, Airtel, Idea)	Monopoly
No of Seller	Very large	large	Small No	One
Product Differentiation	None (Identical Product होते है)	Slight (Similar Product होते है)	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 ✗ Q^n Sold



TR → Linear & Start from origin → Perfect competition ✓ (Price constant रहता है) → Perfectly elastic demand curve

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→ Average Revenue
- Revenue earned / unit of output
- $\frac{TR}{Q}$ (Q ~ Q^n good) or AR = P (Price of one unit of output)
- AR curve is also the Firm's Demand Curve

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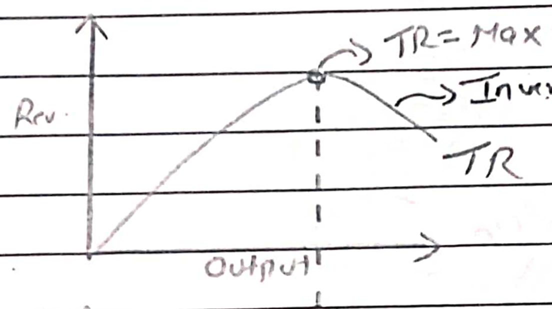
→ Marginal Revenue
- Δ in TR Resulting From Sale of an + Unit of commodities
- $\frac{\Delta TR}{\Delta Q}$ & Slope of TR

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

Perfect competition (→ Price constant)
★ MR = AR = Price

★ AR = Price ⇝ All types of Market

★ Imperfect Competition Curve



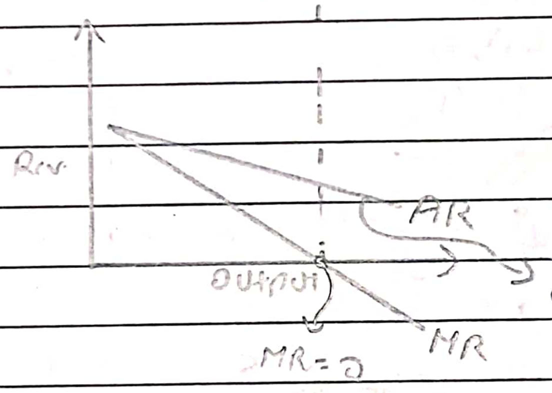
Observations →

(i) TR↑ at Decreasing Rate Due to MR ↓ but +ve (→ diminishing)

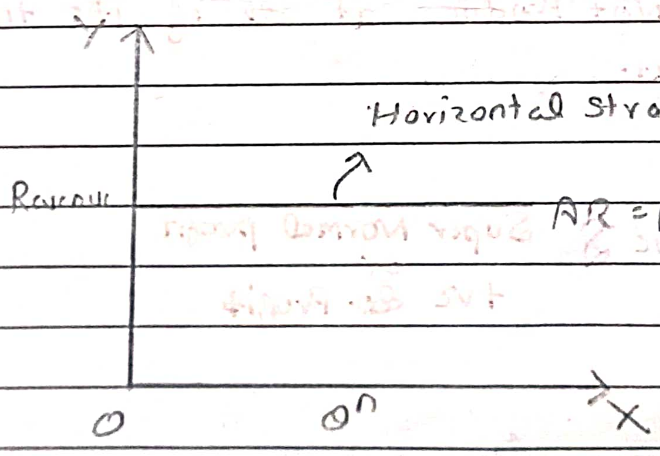
(ii) MR = 0 → TR = Max

(iii) MR = −ve → TR ↓

(iv) AR↓ + MR↓ but [AR > MR]
→ More Rapidly
Boz any red^n in Price applies to All units sold



★ Perfect Competition Curve



Observations :-

(i) Constant AR (Price) schedule

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

(iii) TR ⇝ Upward sloping Straight line

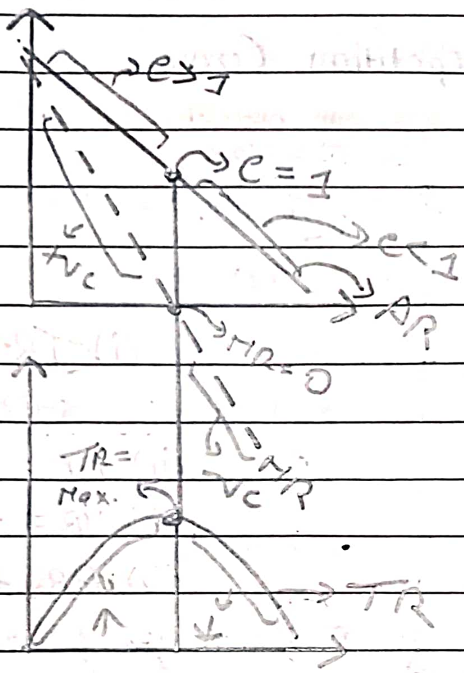
★ Imp

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

→ $MR = AR \times \frac{e-1}{e}$ * e = Price Elasticity of Demand → Formula mei minus sign ignore karte hai

★ Imp Observation of this Formula ↓

	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

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3) $TR < TC \rightsquigarrow (AR < AC)$

$TR > TVC$ → $AR > AVC$ → Continue

$TR < TVC$ → $AR < AVC$ → Shut Down

* Shut Down in Long Run $\Rightarrow AR = ATC$

4) $TR = TVC \rightsquigarrow (AR = AVC)$

Shut Down Point

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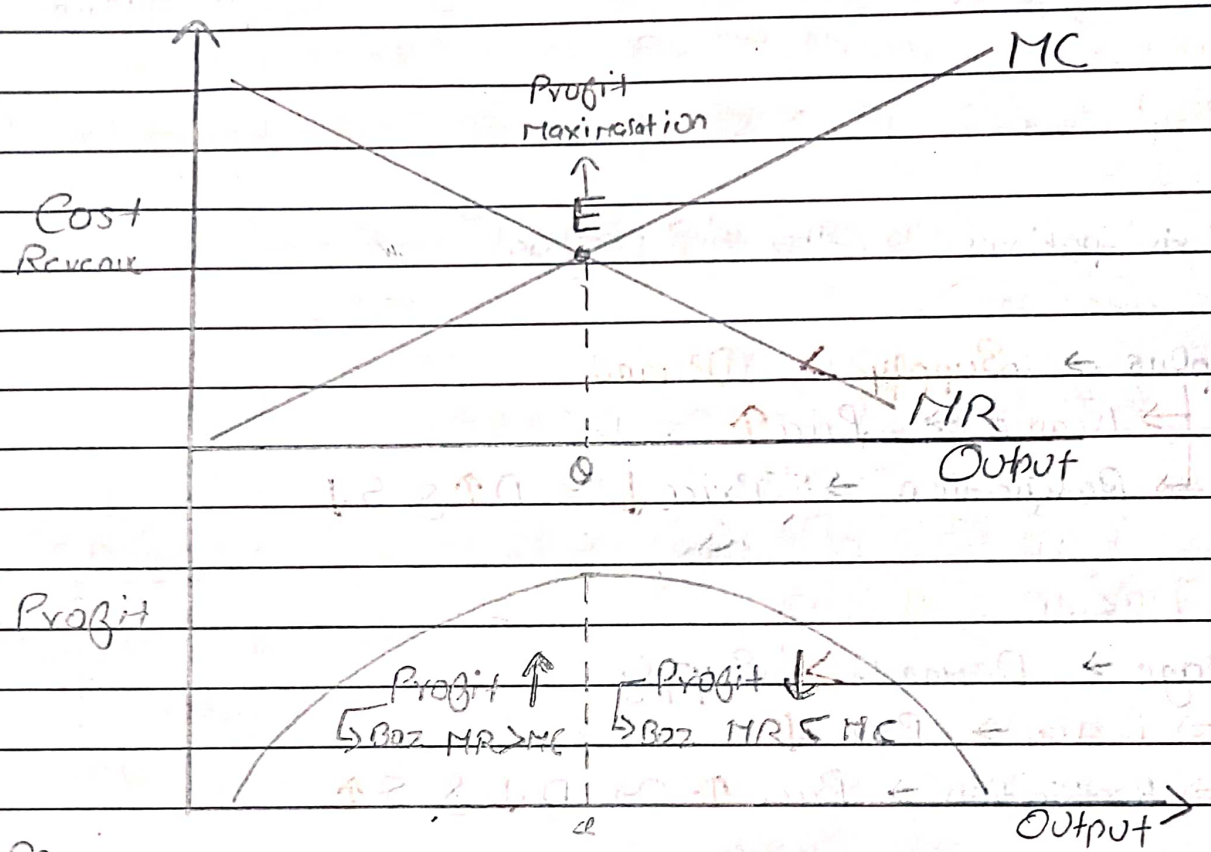
* At Shut Down Point
  - → Price = AVC
  - → TR = TVC
  - → Total Loss = TFC

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] ⇝ Firm will Maximize profit at the Profit

↳ Means जहाँ तक MR = MC नहीं होता तब तक Firm अपना Profit ↑ कर सकती है।

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Unit 02 :- Determination of Prices

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2.1 Determination of Prices - A General View

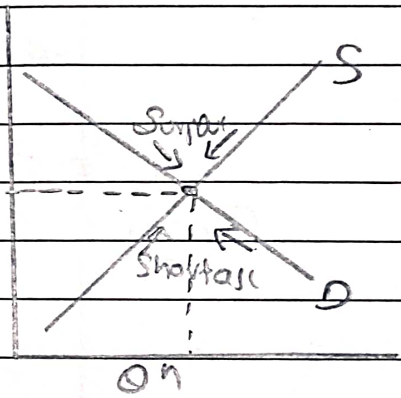
→ Intraction Bet. { Demand, Supply } → tends to Determine → Equilibrium price → Market clearing price
→ q^n

- Equilibrium is said to be stable → If any disturbance to it is self-adjusting → Original equilibrium is restored.
  ↳ Equilibrium को Stable तब कहते जब . Market में कोई भी disturbance हुई है और तो Market force कि वजह से self-adjusting होकर equilibrium पे आ जाता है

***** Ceteris pabirus → Other things constant except Price.

- Surplus → Supply > Demand (MP > EP)
  - ↳ Reason → Price ↑ → D↓ & S↑
  - ↳ Rectification → Price ↓ → D↑ & S↓
    ↳ दोनों जहां मिलेंगे वहां equilibrium हो जाएगा

- Shortage → Demand > Supply (MP < EP)
  - ↳ Reason → Price ↓ → D↑ & S↓
  - ↳ Rectification → Price ↑ → D↓ & S↑
    ↳ Same



2.2 Change in Demand & Supply → Ceteris paribus
↳ और Demand में ↑↓ हो रहा है तो supply constant है V.V

1) Increase in Demand
   - → Shortage
   - → P↑ Q↑ (Eq.) → इस case में D↑ और short-age fill करने के लिए P↑ S↑

2) Decrease in Demand
   - → Surplus
   - → P↓ Q↓ → इस case में D↓ → P↓ S↓

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3) Increase in Supply → Surplus → P↓ Q↑ ~ इस case में S↑ → P↓ D↑

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4) Decrease in Supply → Shortage → P↑ Q↓ ~ इस case में S↓ → P↑ D↓

P = Price (equilibrium)
Q = equilibrium qn

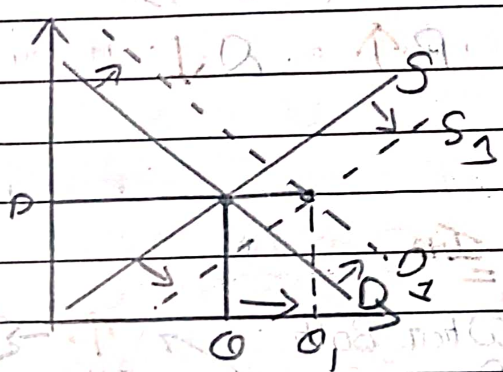
→ Means जब D & S दोनों एक साथ आएगा

2.3 Simultaneous Changes in Demand & Supply

1) ↑ in Demand = ↑ in Supply ~

Price Remains Constant → Means New equilibrium price = Old equilibrium price

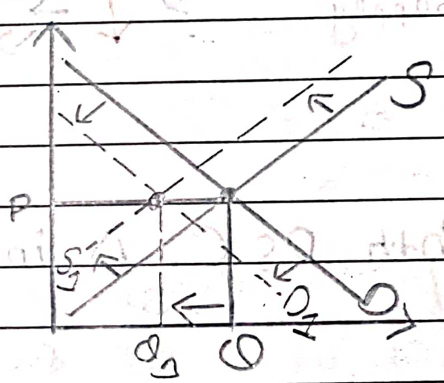
Q↑



2) ↓ in Demand = ↓ in Supply ~

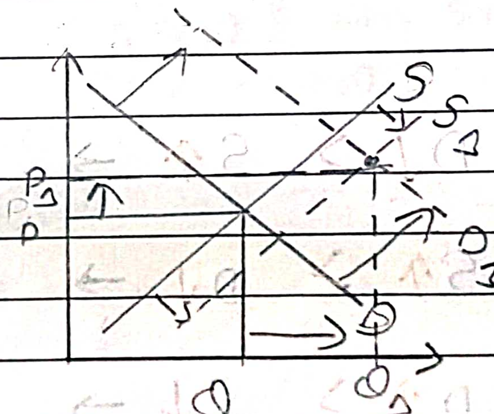
Price Remains Constant → Same

Q↓

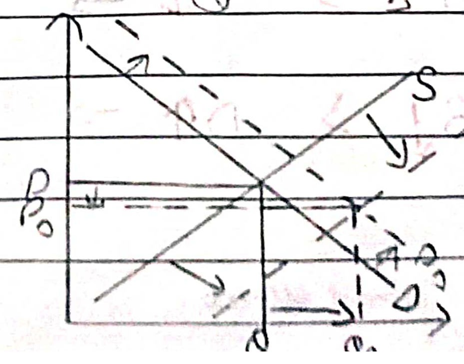


Case of 1) When Both Increase

- ↑ in Demand > ↑ in supply ~
  Shortage
  P↑ Q↑



- ↑ in Supply > ↑ in Demand
  Surplus
  P↓ Q↑



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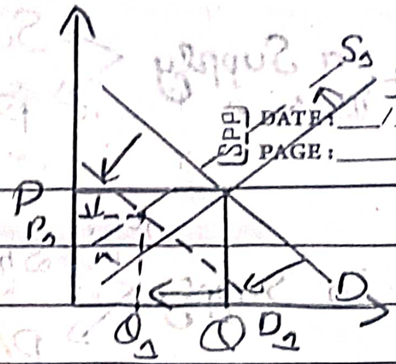
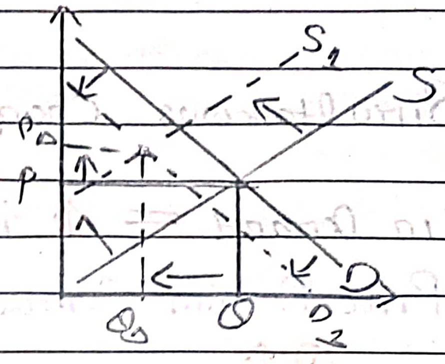
Cases of 2) When Both Decrease



- ↓ in Demand > ↓ in supply ⤳

Surplus

P↓ Q↓



- ↓ in Supply > ↓ in Demand ⤳

Shortage

P↑ Q↓

MCQ Imp

★ When Both Demand & Supply → ↑ or ↓

- ↑ → equilibrium q^n → ↑
- ↑ → Δ Price equilibrium → Uncertain
- ↓ → equil. q^n → ↓
- ↓ → Δ Price equil. → Uncertain

BOZ हमे पता होना चाहिए की D&S कितना Δ या ↓ हो रही है।

★ Both D&S Δ in Opposite Direction

↳ इसमे हम Dominating Factor देखते है। Means कौन ज्यादा है।

इसमे बोहत सारे Case बन सकते है But Dominating Factor देखते है Easy हो जाता है & Graph Bna | इसे हम Case of Δ & 2 से भी Lg Sktc hai

→ Domination Factor से है BOZ के ज्यादा Δ हो रहा है D के

1) D↓ > S↑ → P↓ Q↓

2) S↑ > D↓ → P↓ Q↑

3) D↑ > S↓ → P↑ Q↑

4) S↓ > D↑ → P↑ Q↓

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*Short cut

1) अगर Dominating Factor Demand है तो उसका Direct Relation है Equil. P और equili. q^n के साथ

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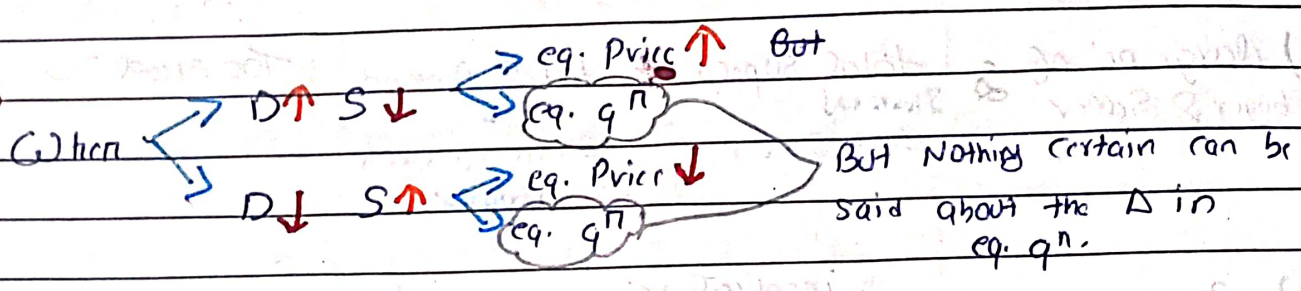
2) अगर Domination Factor Supply है तो उसका Inverse Relation है equil. P और equilia q^n के साथ ←

MCQ Imp
*



Q MCQ Time element was conceived by → Marshall

Q The Regulatory mechanism of the Market system ?
Competition

Q Price ceiling → Maxium price that can be charged for a good.

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Unit 03 :- Price - Output Determination Under Different Market Form

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3.0 Perfect Competition → Characteristics

(i) Large no. of buyer & seller & [total supply + total demand] → Too small → ✗ Buyer or seller in position to influence the price
- Share of each seller
- Share of each Buyer

(ii) Product supplied by all firms → identical ✓ / Homogeneous ✓ + Goods sell → at a single market price + Perfect substitute

(iii) Every firm is free to → enter the market / to go out of it — means no legal or market related barriers

* Above 3 condition are fulfilled → Pure competition ✓

(iv) Buyer or seller → Perfect knowledge of the market conditions. (nature of product & price etc)

(v) PCM → very low transaction costs

(vi) All firms individuals are price takers & Industry price maker → हर Firm को price accept करना पड़ता जो M.F से Determined hua hai.

Ex of PCM → Financial Instrument (Stock, Bonds, Foreign Exchange) or Precious Metals (Gold, Silver, Platinum) or agricultural Product

* Price Discrimination ✗ → bcz seller has no influence over market price

3.0.1 Price Determination Under Perfect Competition

- Equilibrium of the Industry → [total supply output of Industry = total Demand] → Industry is in equili. ✓ / equili. Price ✓
  → Eqi. Output = Total Supply = Total Demand
- Equilibrium of Individual firm → When → Maximising its profits ✓ / ✗ incentive to expand or contract Prodⁿ
  → Eqi Output → Output which gives max. Profit to the firm.

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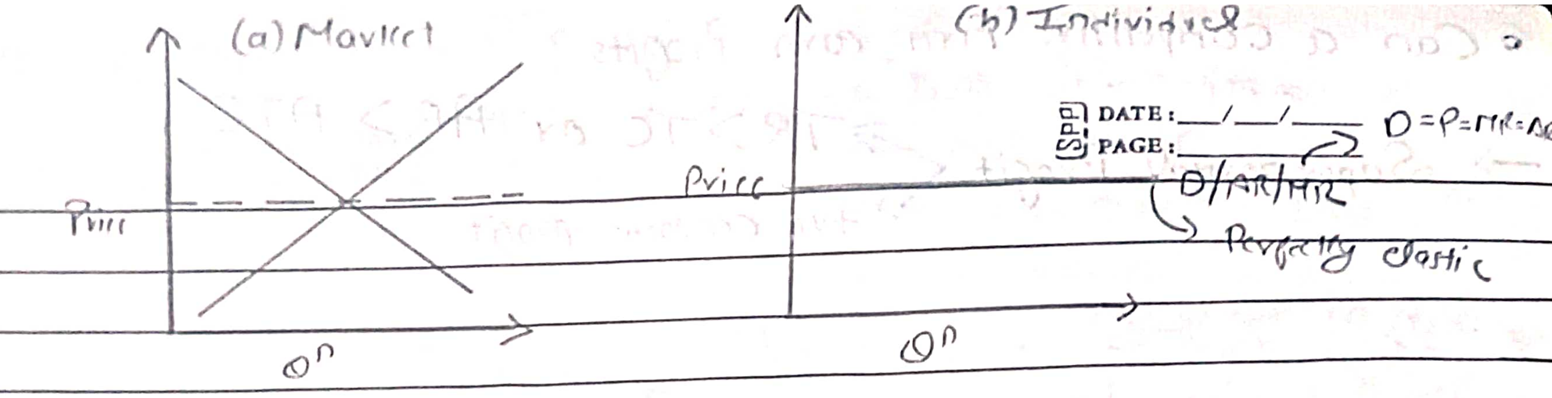


★ Conditions for equilibrium of firm In Short Run

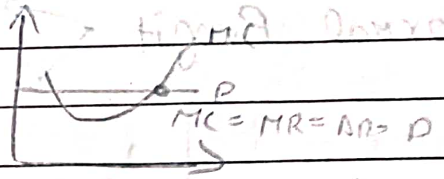
(i) Firm Profit Maximize when → MR = MC Normally

But under PCM → MC = P

↳ MR = AR = P Baat ek hi hai

~~MC curve MR curve को niche se cut करना चाहिए MR = MC होगा~~

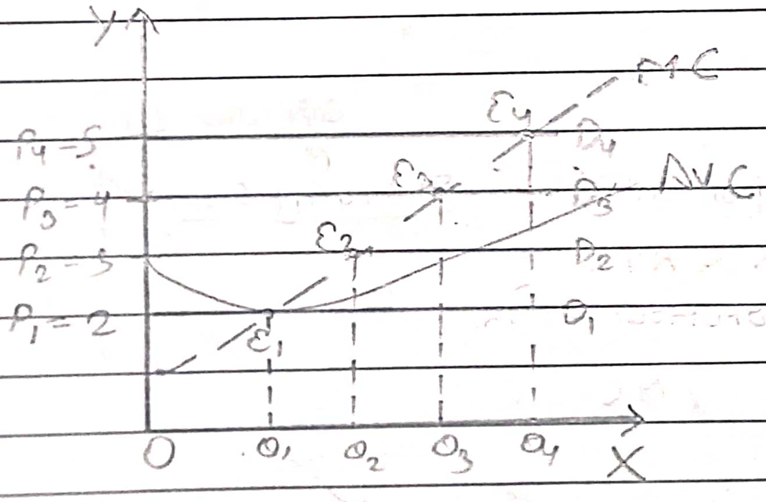
(ii) MC curve should cut MR curve from Below. In other words, MC should have a +ve slope.



★ Short Run Supply Curve of the firm in a competitive market

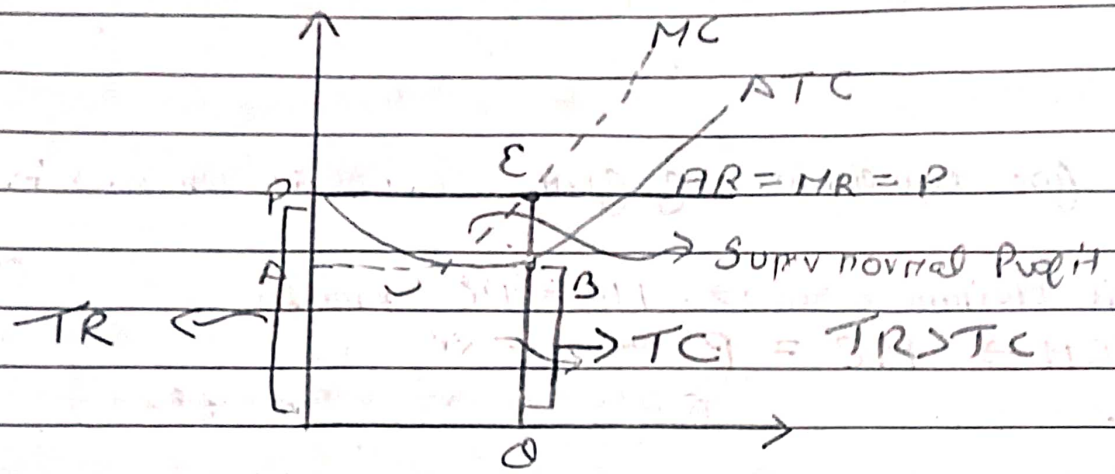
→ MC curve = Firm's Supply Curve

↳ (When MC, above AVC)

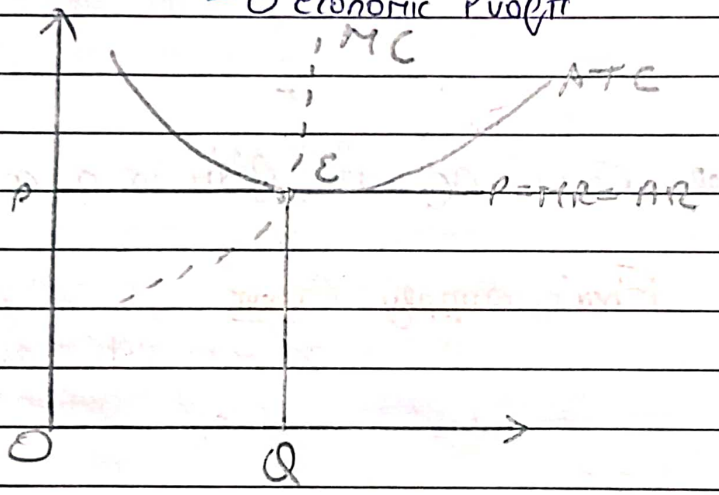


• Can a competitive firm earn Profits? In Short Run

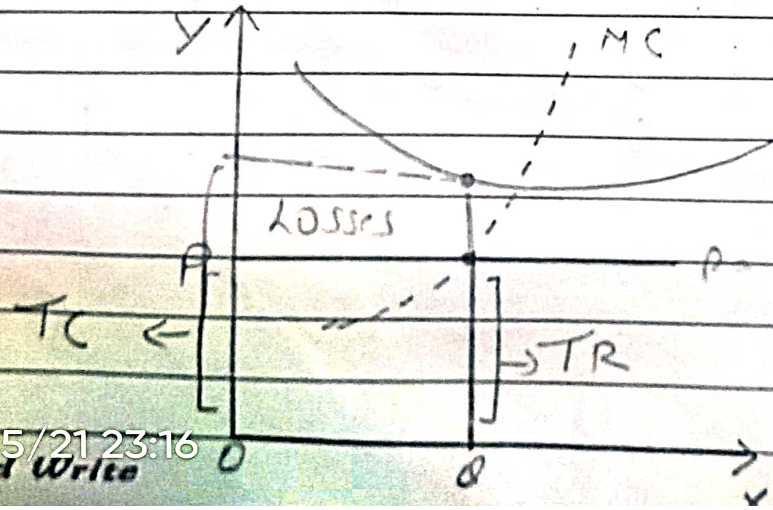
→ Supernormal Profit ⟷ TR > TC or AR > ATC
⟷ +ve economic profit



→ Normal Profit ⟷ TR = TC or AR = ATC
⟷ 0 economic Profit



→ Losses ⟷ Firm → equilibrium position ✓ + ~~Still making losses~~ ✓ only when AR > AVC
⟷ TR < TC or AR < ATC
But AR < AVC ⇝ shutdown कर देना चाहिए



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★ Long Run equilibrium of a Competitive Firm

• Firm equilibrium → They have adjusted their plant → To Produce at the Min. point of their Long run ATC curve.

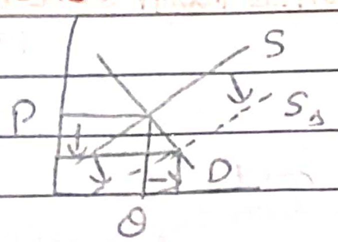
जब मैं उस Plant पे आ चुका हूँ जहाँ पर Meri Min. Cost होगी Prod^n करने की।

Increase in ATC ↑

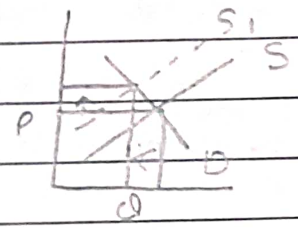
→ In Long Run, Firm will be earning → Just Normal Profit

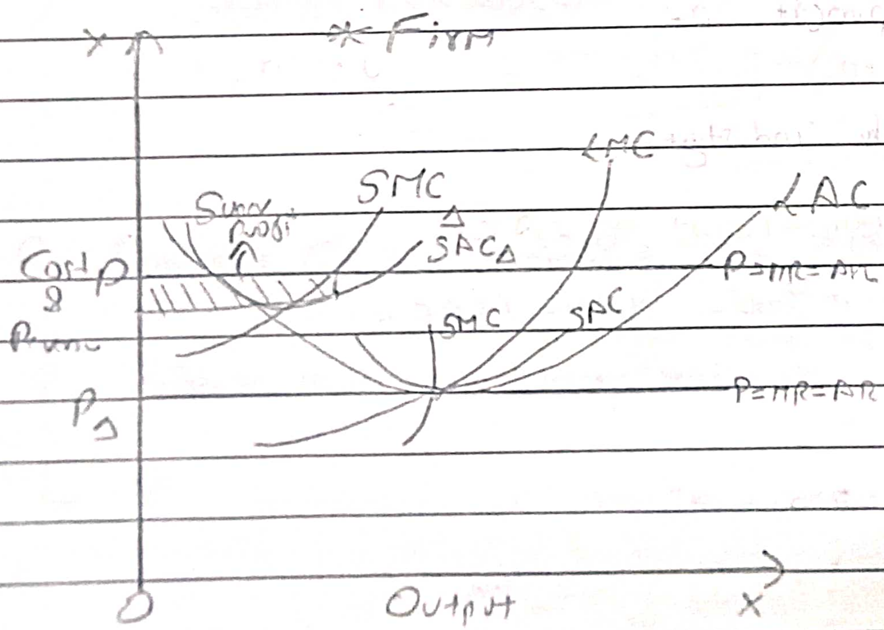
→ Boz यहाँ ज्यादा Profit मिल रहा है।

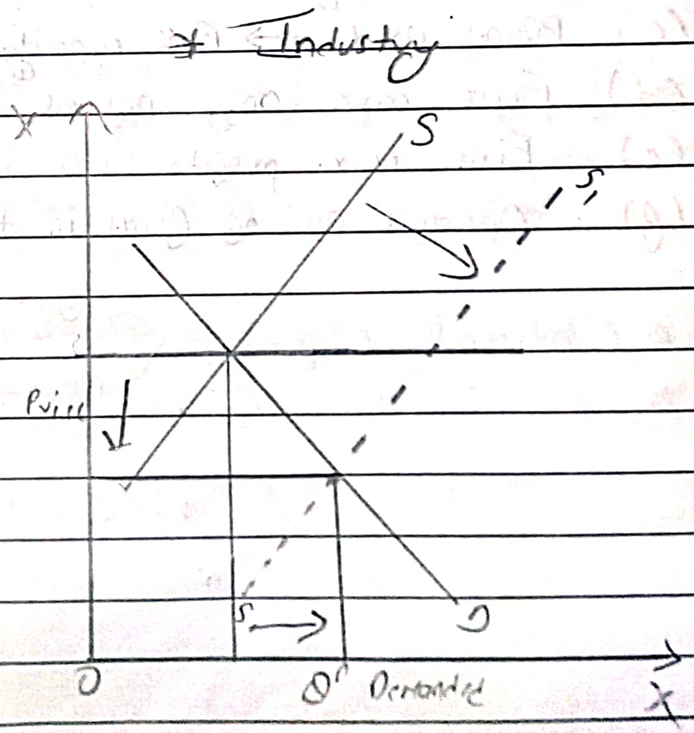
• If Firm making Supernormal Profit in Short Run
- → New Firm attracted into the industry
- → Price ↓ Boz
  - ① Inc. in Supply ← Existing Firm भी inc. करेंगे Boz उनको Profit मिल रहा है; New Firm भी
  - ② Demand में कोई change नहीं है
  - ③ Inc. in the cost of Factor of Prod^n
    - ↳ Boz S ↑ → Demand of factor of Prod^n ↑ → P ↑ → Firm Cost ↑ → Firm Profit ↓



• If Firm Making Losses in SR
- → They will leave the industry in the LR
- → Prices ↑
  - → Dec. in supply
  - → Demand No Change
  - → Dec. in cost of Factor of Prod^n
    - ↳ Boz → Price ...







Observation :- 1) LMC = LAC, Cost is Min.
2) SMC = SAC, Cost, Min
3) SMC = SMR, Max Profit

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* Condition of LR Equilibrium of the Firm

$LMC = LAC = P$ → $LMC = P$ (Profit Max.) & Tangent to the Demand curve (Price)
→ $LMC = LAC$ (AC min.)

or

$LMC = LAC = P = SMC = SAC = MR$

★ Long Run Equilibrium of the industry Conditions :-

→ All firms in the industry → Equilibrium (→ means all firm are maximising profit)

→ ✗ Firm has incentive (entry / exit) → the industry Bcz all firms earning normal profit or 0 economic profit

→ Total q^n supplied = Total q^n Demanded

- Optimum Firm → Firm producing output at optimum cost
  ↳ In long run, all firm under PCM

- The optimality is shown by the following outcomes associated with the long run equilibrium of the industry:

(a) Output produced → Min. feasible cost
(b) Consumer pay the min. possible price → which just cover the MC (Allocative efficiency, AR or P = MC, Bcz MC = P)
(c) Plant used → Full capacity in LR (MC = AC) ⇒ Productive efficiency
(d) Firms earn only normal profit (AR = AC)
(e) Firm max. profits (MC = MR)
(f) Optimum no. of firms in the industry

- Optimal Capacity → at min. Point of LAC
  ↳ Plant is fully utilised (SAC is min.)

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★ Monopoly → Means "Alone to sell" & Absence of competition
→ No Diff. bet Firms & Industry

→ Features :-

1 Seller = Industry

(i) Single Seller of the Product
(ii) Barrier to Entry → Economic Barrier, Legal Barrier etc
(iii) No close substitutes → is a price maker ✓ & ✗ a price taker
→ Cross elasticity of Monopolist Product → 0 or very small
→ Price Elasticity of Monopolist product → less than 1 [$E_p < 1$]
(iv) Market Power
↓
ability to Δ Price → Positive Profit
↓
(AR > MC)

& Demand curve of Monopolist Product → Steep downward sloping
& Supply curve → ✗

∴ How do monopolies arise?

1. Strategic Control over → Scarce resources / Input / Technology → by a single firm.

2. Through → developing / acquiring control → over a unique Product & Oth. comp. → Difficult to copy.

3. Govt. granting exclusive rights to produce & sell G&S.

4. Patent & Copyright given by govt. → To Protect intellectual prop. / encourage innovations

5. Biz combinations or Cartels → ex:- Jio, Airtel, VI

6. Extremely large start-up cost → To enter the market

7. Natural Monopoly → arises → When there are very large economies of scale → Means A single firm can produce the industry's whole output at a lower unit cost. 50 करोड़ ... Competition नहीं कर सकती eg. PW

8. Enormous Goodwill enjoyed by firm → For long Period

9. Stringent legal & regulatory requirements → Discourage entry of new firms
→ Means Bohot lamba procedure hota hai entry ...

10. Firm use various anti competitive practices → ex:- Predatory tactics.

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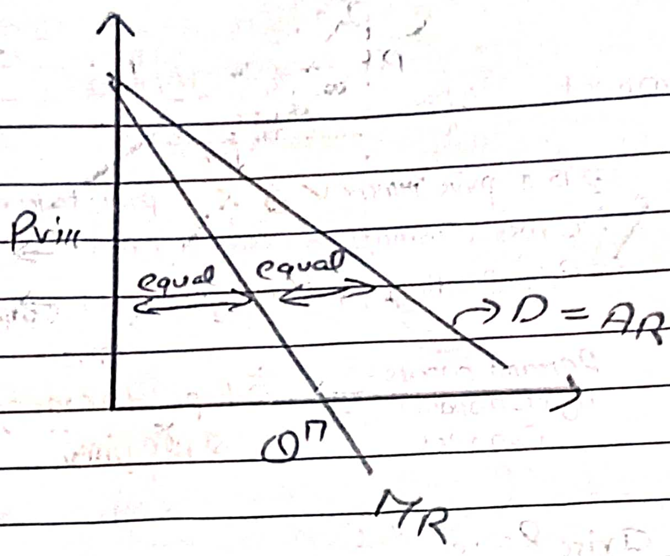
★ Monopolist's Revenue Curves



IMP Relationship Between AR & MR of a monopoly firm

(i) AR + MR → Negatively by Sloped [Downward Sloping] Curves.

(ii) Slope of MR Curve = 2 × Slope of AR Curve
→ MR curve lies half way between ⟨ AR curve / Y Axis
(lies half way ↓ Means Cut horizontal line into two equal parts)

(iii) AR ≠ 0 & MR ⟨ 0 or -ve

* Monopolies are 2 Types ⟨
- Simple → Charges Uniform price from all Buyer
- Discriminating → Charging Diff. prices from different buyers of same Goods
  - Eg :- Dynamic fare charged by Indian Railways in specific trains.

★ Short Run Equilibrium

→ Conditions for equilibrium ⟨
- MC = MR
- MC Curve should Cut MR curve from Below

Same as PCM Condition

• Monopolised Market can incur ⟨ Super normal profit ✓ or Normal Profit ✓ or Losses ✓

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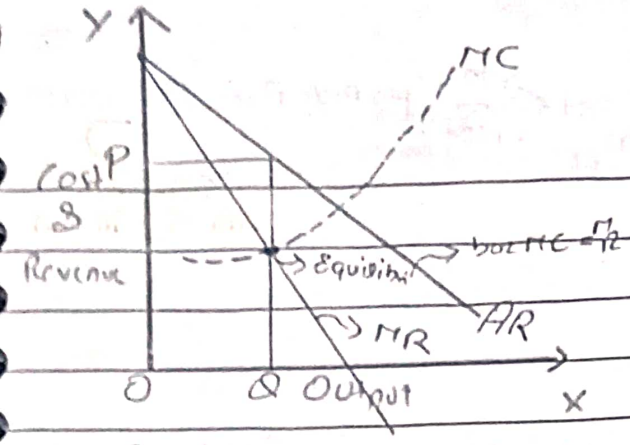

Fig: Equilibrium of a monopolist (Short Run)

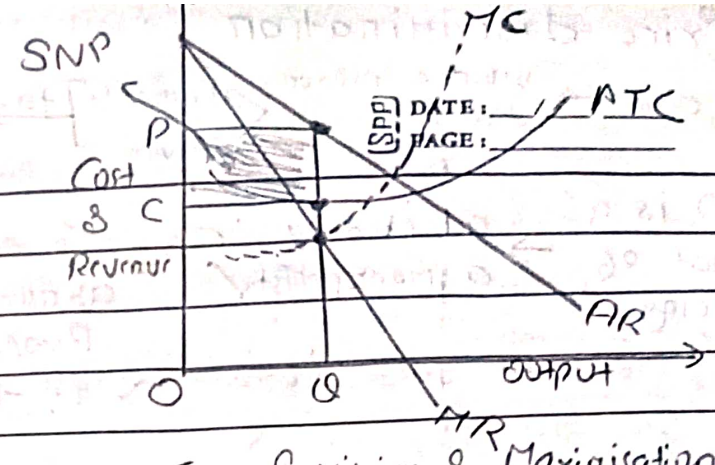

Fig Equilibrium & Maximisation of Profit (Super normal profit)

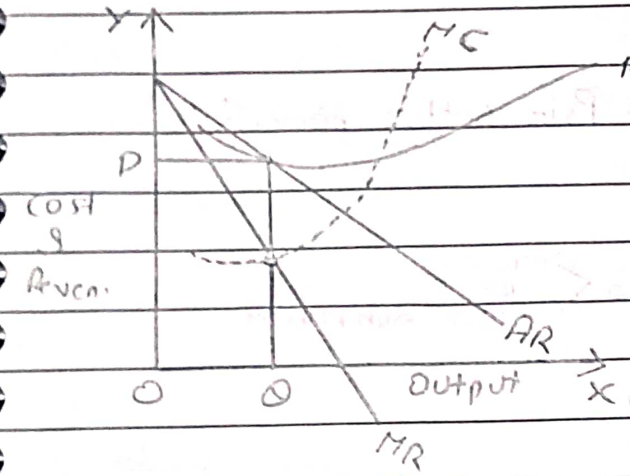

Fig Equilibrium & Normal profit.

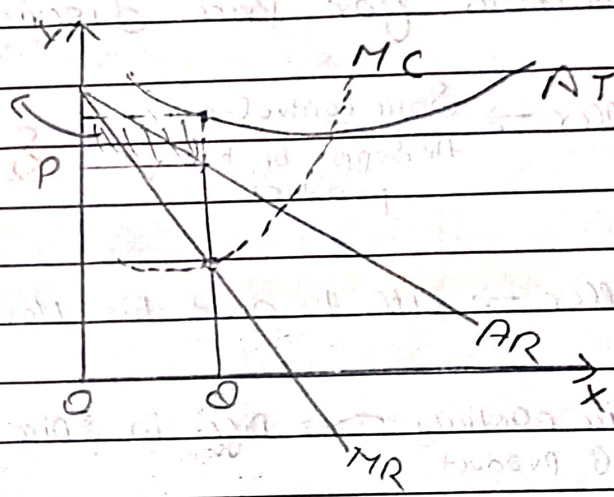

Fig Equilibrium & Loss in SR

AVC cover ✓ Continue

AVC cover ✗ Shut down

Same

Graph start at SO (Super Normal profit)

★ Long Run Equilibrium

- He can chose any point on the LAC where this profit are maximum.
- Monopolist need ✗ produce at the optimum level.
- He can produce at a sub-optimum level also. ✓

Monopoly में monopolist किसी भी LAC curve के SAC पर कहीं chose करके profit कर सकता है लेकिन उसे Profit Maximisation होना चाहिए

* ये Super normal profit भी earn कर सकता है
* Losses ✓ → continue नहीं करेगा
* Pure profit earn करता है Bcz entry of outside firm is blocked.

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★ Price discrimination

→ PD occurs → When a producer sell a specific ⟨Commodity or Service⟩ to Diff. buyers at ⟨two or More⟩ Diff. Prices for reasons. ↓ ~~associated~~ with diff. in cost

→ PD is a Method of pricing → adopted by a monopolist ✓ → to earn abnormal Profit

eg Transport cost ← cost की वजह से Diff. Price हो रहा है तो उसे PD नहीं कहेंगे

↳ eg Monopolist ज्यादा पैसे लेता है अगर वो देखता है ये Rich बनता है।

Conditions for Price discrimination :

1. Seller → Some control over the supply of his product ✓ & Firm → Price setting power ✓ (→ S.I या S↑ अपनी मर्जी से)

2. Seller → able to divide his Market ✓ into ⟨Two or More⟩ Sub Market

3. Price elasticity of product → Diff. in $ Diff. Sub Market

→ Monopolist Fixes a high prices → For those buyer → Demand inelastic ($E_p < 1$) V.V

4. ✗ Market arbitrage → Means अलग-अलग Market में अलग-अलग Price है तो लोग इसका फायदा उठाते हैं।

If Assume 2 Market

Market A   Market B

Case 1 $MR_A < MR_B$ → Market B में MR ज्यादा है तो मैं इस case में P.D. नहीं करूँगा Bcz मुझे पहले से ज्यादा Profit मिल रहा है so Me Market A के Goods Market B में Mg करूँगा। V.V

Case 2 $MR_A = MR_B$ → अब Mujhe dono Me Same MR मिल रहा है तो उस में इस case में PD करूँगा और Higher Price उस Market में लगाऊँगा जहाँ elasticity less है Means inelastic Demand है V.V.

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■ Objectives of Price discrimination : →

(a) to earn max. profit ...
(b) to dispose off surplus stock
(c) to enjoy economies of scale
(d) to capture foreign market
(e) to secure equity through planning

IMP
★ Degrees of Price Discrimination → by A.C. Pigou

→ First Degree Price Discrimination
- Monopolist separate market ~~into each individual consumer~~
- Charge their price + willing / able to pay
- extract the entire consumer surplus

Means यहाँ पर हम same Market में individual consumer को उसकी अलग Price लेते है
जैसे कोई बड़ी car से आएगा उससे ज्यादा पैसे, दूसरा और कोई cycle से आएगा उससे कम पैसे लगा।

→ Second Degree Price Discrimination
- Diff. Price Charged → diff. q^n sold
- Monopolist will take away only a part of CS.

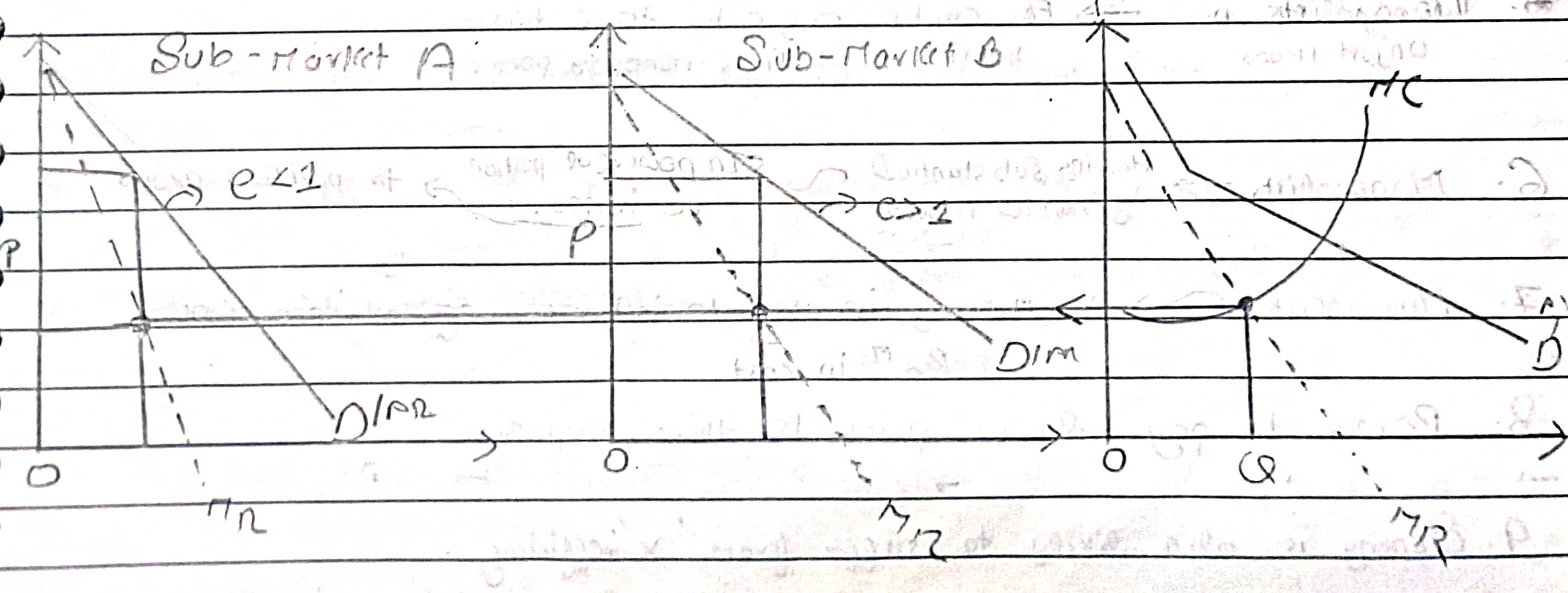
↓ Two possibilities
- Diff. consumer pay diff. price → If they buy diff. q^n → larger q^n available at lower unit price
  - eg: Family pack of soap
- Each consumer pay diff. price for consecutive purchase
  - consump^n exceeds a particular limit → P↑

→ Third Degree Price Discrimination
- Location / Customer segment
- Monopolist divide consumer into sub-market → Charged diff. prices in diff. sub-market

इसमें अलग-अलग Market से Diff. Price

★ Equilibrium under PD → 3rd Degree PD ✓

~~पहले इस Graph से काम करेंगे~~



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→ To reach the equilibrium position, the Monopolist has to make 3 Decision:-

1. How much total output should be produced ?
   ↳ Monopolist will compare the MC & MR of the output in Total Market / Aggregate Market
2. How the total output should be distributed between the two sub-markets
   ↳ First MR = MC → equal
   of 2 sub-markets
3. What prices he should charge in the two sub-markets ?

∴ PD → Loss of economic welfare → AR > MC
→ also result in reduced Consumer surplus
→ Revenue ↑ due to PD → enable some firm to stay in biz
↳ else would have made a loss

Peak load pricing → Peak time → Firm having capacity constraints + able to spread its demand
→ Off Peak time → results in better capacity utilization + red" in cost of prod"

Economic effects of Monopoly

1. Monopoly is often Criticized → it reduce aggregate economic welfare
2. Monopolists charge → Substantially higher prices
   → produce lower level of output
3. Monopolists earn → Economic profit in LR → unjustifiable ✓
   ↳ super normal profit
4. Monopoly restricts consumer → Sovereignty, Opportunities → to choose what they desire.
5. Monopolists use unjust means → For creating barriers → entry to sustain their monopoly power
6. Monopolists → Having substantial financial resources → in powerful position to influence → the political process
7. Monopolists → ✗ necessary incentive to introduce efficient innovations
   Red" in cost
8. Power to pay lower prices to their suppliers
9. Economy is also likely to suffer from 'X' inefficiency.

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3.2 Imperfect Competition - Monopolistic Competition

↓ Price Maker ✓

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→ Features — Excess capacity always exists

(i) Large no. of Seller

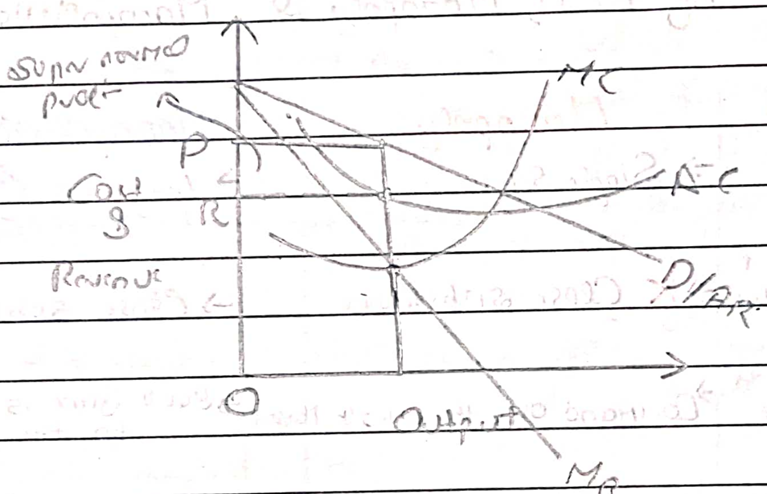
(ii) Product Differentiation — Product of Diff. Seller → Differentiated on the basis of brands; ~~Competing products~~ → ~~Close substitutes~~ → Demand relative elastic

(iii) Freedom of entry & exist — MC Theory architect → Chamberlin

(iv) Non-price Competition — Distinction bet. Selling cost & Production cost

★ Price - Output Determination Under Monopolistic Competition:
Equilibrium of a firm

→ Each firm Price Makers + less differentiated the product ~> More elastic



Conditions for the Equilibrium of an Individual firm:

1. MC = MR   2. MC curve must cut MR curve from below

- Monopolistic competitive firm incur → Super normal profit ✓; Normal profit ✓; losses ✓

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★ **Long Run equilibrium** :- → earn only normal profit
↳ Same Reason if earn SNP & losses as PCM.

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★ **Individual firm equilib. in LR**
→ Will be operating at levels at which it does ✗ fully realise economies of large scale of production Means Monopolistic Firm कभी optimum prodⁿ means min cost पे prodⁿ नहीं करती hai और वहां पे max. profit नहीं होता
→ If any attempt to produce more to secure the advantage of large/min cost prodⁿ
  → Irrational
  → ↓ Price > ↓ Cost ⤳ Price ज्यादा कम हो जायेगा तो Profit भी ↓.

MCQ
★ **Monopolistically competitive firm** ⟶ Equilibrium in LR is at a position ⟶ **Excess capacity**
↓
Producing the lower qⁿ than its full capacity level
↳ ये जितना बना सकते है लेकिन उससे कम बनाते है ये Firm
↳ Means Producing at falling portion of LAC curve

★ **Comparison of PCM, Monopoly & Monopolistic Competition**

Perfect Competition	Monopoly	Monopolistic Competition
→ Large no → buyer, → Firm	→ Single seller	→ Large no → buyer, → firm
→ Homogenous Product → Perfect Substitute	→ ✗ Close substitutes	→ Close substitutes
→ Insignificant market share (सब Firm का chota-chota MS hai)	→ Command over the whole market	→ Each firm is small relative to the market.
→ Perfect competition	→ Absence of competition	→ Imperfect competition
→ Absence of monopoly	→ High degree of Monopoly Power	→ Some degree of monopoly power
→ Free entry & exit	→ Strong barriers to entry	→ Free entry & exit
→ Price taker	→ Price maker	→ Some control over price
→ MC = P/AR	→ P/AR > MC	→ P/AR > MC
→ Price < Other Market Form	→ High equilibrium price	→ Price is high compared to perfect competition

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→ Demand curve → Infinitely elastic	→ Downward sloping & Highly inelastic → Demand curve	→ Downward sloping & More elastic demand curve
→ MR + AR ~ Same curve	→ MR is twice steep when compared to AR	→ =
→ TR ~ Straight line positively sloping through the origin	→ TR inverted U Shaped	→ =
→ ✗ PD	→ ✓ PD	→ Depends on the extent of monopoly power the firm
→ ✗ SP in LR	→ SP in Both SR ✓ LR ✓	→ ✗ SP in LR
→ ✗ Selling costs	→ Generally low selling costs	→ High selling cost → creates advertisement
→ Price being given, decide only q^n of output	→ Decides both Price, q^n of output	→ =
→ Product is produced at the Min. Average cost	→ Produced at the declining portion of AC	→ =
→ Equilibrium q^n is highest + Produced at least cost	→ Equilibrium q^n < other market forms	→ Equilibrium q^n > Optimal ~ Excess capacity
→ ✗ Consumer exploitation	→ Consumer exploited → Charging ↑ Price	→ Consumer influenced through Price + Non-Price competition
→ Efficient allocation of resources	→ Inefficient allocation of resources	→ =
→ Wastage of resources	→ Wastage of resources	→ Huge wastage of resources for Advertisement

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★ Oligopoly → Imperfect Competition
→ Limited No. of Seller [2 - 10] + Product → Homogenous ✓ / Differentiated ✓
→ Market Share Significant → Means Big Firms
→ Strategic Interdependence

Prof. Stigler ✓

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→ Types of Oligopoly :

- Pure oligopoly or Perfect oligopoly → product is homogeneous in nature → eg Dominant industry
  → tends to process → raw Materials / intermediate Goods → Produce
  → ex : petroleum, steel & Aluminum.

- Differentiated or Imperfect oligopoly → Goods sold is based on product differentiation
  → ex:- Talcum powder

- Open oligopoly → Free entry & Closed Oligopoly → Entry is restricted.

- Collusive oligopoly → When Few firms of the oligopoly Market → Comes to → common understanding or act in collusion → with each other → either Fixing Prices / Output / both
  Means जब कुछ Firm oligopoly की आपस में आप मिलती

- Competitive oligopoly → Absence of such an understanding among the firms + Compete with each other

- Partial oligopoly → Industry → Dominated by one large firm + Dominating firm → Price leader ✓
  → Leader of the group

- Full oligopoly → Market will be conspicuous by absence of price leadership.

- Syndicated oligopoly → Firm sell their products through a centralized syndicate. (करते के लिए)
  इसमें Common interest wali Firm oligo. की वो एक group बनाते hai Aur उस मिलके एक leader chunte hai & vo jo bolega sab log vo करेंगे

- Organized Oligopoly → Firm organize themselves → central association for → Fixing Price / Output / Quotas etc.

- Cartel :- A group of firm eg (OPEC) → Organisation of Petroleum exporting countries
  [leaders act as monopoly]

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■ Characteristics of Oligopoly Market -

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→ Strategic Interdependence
- Most imp. feature → interdependence in decision making of the few firms.
- ~~Few sellers~~ + intense competition + each seller is big enough to influence the market.
- Firm has to necessarily
  - Respond to its 'rivals' actions.
  - The rivals also responds to the firm's action.

~~Oligopoly में अगर एक Firm P.d. करती है तो बाकी लोग~~
भी करते बाकी के market से बाहर हो जाए

→ Importance of advertising & Selling cost — Great importance

→ Firm employ various → aggressive + defensive → Marketing weapons
- To gain greater share in the market
- Maintain their share

*Noted ~> That firm in such type of market avoid price cutting

→ Group Behaviour

■ Price and Output Decisions in an oligopolistic Market

→ Oligopolistic firm → ✗ Have sure + Determinate Demand curve
(Demand curve shifting as the rivals Δ their price in reaction to the price Δ made by it)

∴ Imp. Oligopoly models are:

(i) It is assumed by some economists → Oligopolistic firms ignore their interdependence & make their decisions independently ~> DC definite

(ii) Some economist assume → Oligopolist is able to predict the reaction pattern of his competitors + on the basis of his prediction → He makes decisions relating to price & q^n.

- Cournot Model
Cournot model में control variable hota hai Output में हर अपना Output ↑ ↓ कर सकते हैं और बाकी लोग X होते

- Stackelberg's Model → इस Model में leader पहले Output Decide करता है और जो uske followers hai vo bad me output Decide करते हैं।

- Bertrand Model → इसे आप अपना Price Δ करो बाकी लोग नहीं करेंगे
Cournot model ...

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(iii) 3rd approach → Oligopolists enter into agreement + try to prevent their competitors

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★ Price Leadership

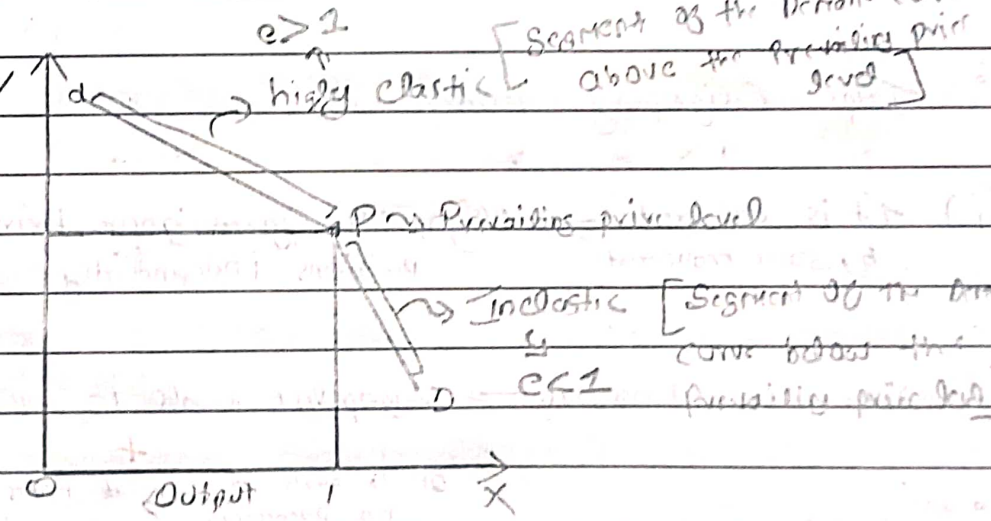
- **Cartel** → A group of firms that explicitly (collusive) agree → Coordinate their activities
  - Most cartel have only → subset of Producers

→ Price leadership by dominant Firm
- One strategy adopt → Live & let live philosophy (pass)
- Dominant Firm
  - accept the price of Fringe Firm
  - Set price to max its profit
  - Taking into account Fringe Firm behaviour.

→ Price leadership by Low cost Firm
- Price leader Set the price in such a manner
- It allocate some profits to the followers also

→ Baromertric price leadership
- Firm: old, experienced, largest or most respected → Act as a leader
- Leader Makes Δ in Price → Which are best from the view point of all firms in industry

★ Kinked Demand Curve
- Given by → An American Economist Paul A. Sweezy
- Sweezy's Model



★ Rigid or sticky prices explained → by kinked demand curve theory

★ Explain also → Why oligopolistic price might change only infrequently

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- When oligopolist Lower the price below the prevailing price
  - Its competitor will Follow
  - Little Increase in sales.
- When oligopolist Increase the price of product
  - Competitor will Not Follow
  - Massive Decrease in sales
- Response to a price ↑ is less than the Response to a price ↓

→ Other Imp. Market Forms

*Sony ~ Buyer मान लो

1) Duopoly → Subset of oligopoly
   → Only 2 Firm in a Market
2) Monopsony → Single buyer in Market
   → Applicable to factor Market
3) Oligopsony → ~~Small no. of Large buyer~~
   → ~~Applicable to Market~~ Factor
4) Bilateral Monopoly → 1 Buyer + 1 Seller
   → Combination of → Monopoly + Monopsony

Imp MCQ →

Q ⇒ Monopolies are allocatively inefficient because → They restrict the output to keep the price higher than under PC + (AR > MC)

Q PC → Making Min. Losses (In short Run) ~ MR > MC

Q Product Differentiation is most imp. feature ~ Monopolistic competition

Q Unique Supply curve in Monopoly is Not due to ~ P > MC

Q In long Run, Normal profit are included in → LAC (which curve)

Q Dilemma faced by a Monopolistic is setting → Price or Output → either

Q Product under Pure Monopoly → Homogenous

Q LR Period → Normal Price → competitive firm will be ⇒ Equal AC & MC of Prod

Q Normal Profit included in → Implicit cost

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