

CHP - 4 UNIT (I)

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MEANING AND TYPE OF MARKET

Free goods : Abundant in supply, 0 priced goods (free)
Economic goods : scarce, has opportunity cost, exchangeable in market, command a price

- Q1) — refers to purchasing power of article expressed in terms of money
→ Price
- Q2) ~~Who~~ According to — value in exchange means power in exchange over commodities OR command over commodities
→ Ricardo

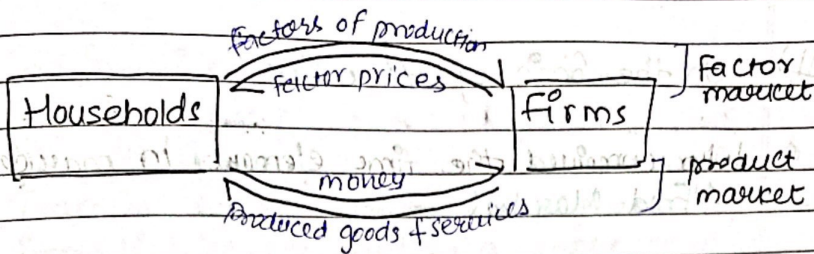
Value in use refers to usefulness / utility & Value in exchange / economic value = the price you pay to obtain goods & services (Water-diamond paradox)

Sentimental value is subjective & reflects an exaggerated judgement about worth of commodity. Not relevant in economics (ex. ehsoon nahi bhulunga)

Market need not be formal / held at a particular place (ex. Cars 24, Amazon)

Elements of market :-

- i) Buyers & sellers
- ii) product / service
- iii) Bargaining for a price
- iv) knowledge about market conditions
- v) 1 price for a product / service at a given time



- Q) _____ market allocates goods to the consumers & _____ market allocates productive resources to the producers
→ product, factor

Classification of Markets

[I] Geographical Area:-

- Local markets
where buyers & sellers are limited to a local area / region. ex. highly perishable goods, bulky ^{grm} ^{dis}
- Regional markets
covers wider area → few adjacent cities, part of states / cluster of states. ex. parthani saree - Maharashtra
- National markets
demand - within national boundaries
ex. Patanjali, Hateram
- International markets
exchanged internationally, high value, small bulk goods
ex. gold, dominos

(II) On the Basis of time

* Q Who conceived the time element in markets
→ Alfred Marshall

1) Very short period :

- supply is fixed hence price depends on demand
- perishable goods are classified under this.
- Demand $\uparrow$: price $\uparrow$
demand $\downarrow$: price $\downarrow$

2) Short period :

- Supply can be moderately adjusted
- By increasing the employment of variable factors (labour, raw material, etc.)

3) Long period :

- All factors become variable
- Supply can be fully adjusted by altering the scale of production.
- Long run equilibrium price (Normal price) is determined by long run demand & supply forces

4) Very long period (Secular period)

- when we talk about size of population, capital supply, supply of R.M., which type of market are we referring to

→ VERY LONG PERIOD MARKET.

(III) Basis of nature of transactions

- 1) Spot / Cash market:
 - Transfer of goods & money payment happens immediately or within a short span of time.
- 2) Forward or future market:
 - Contracts with promise to pay & deliver goods at ^{some} future date.

(IV) Basis of regulation

- 1) Regulated market:

Transactions are statutorily regulated.

ex. Stock exchange
- 2) Unregulated market / free market

No stipulations on transactions (no regulations)

ex. flea market, weekly market, etc.

(V) Basis of volume of business

- 1) Wholesale market

Goods are bought and sold in bulk qty.

B2B
- 2) Retail market

Goods are bought/sold in small quantities

B2C; market for ultimate consumers

(VI) On basis of competition

	perfectly competitive	monopolistic	oligopoly	monopoly
	(Kaanda market)	(toothpastes)	(telecom, OPEC)	Kajuli king
no. of sellers	v. large	large	few	one
product diff.	None	slight	None to substantial	extreme
price elasticity of demand	Infinite	large	small	v. small
control over price	None	Some	Some	very considerable

* Total Revenue, Average Revenue, Marginal rev

• $TR = \text{price} \times Q_{ty}$

• $AR = \frac{T.R}{Q}$

• AR is revenue earned per unit of output.

• AR curve is also known as firm's demand curve.

• $AR = \text{price}$

(Assuming that all the units of commodity are sold @ same price)

• MR is the rate of change in total revenue resulting fm the sale of an additional unit of output.

• The MR ~~curve~~ falls at a faster rate than fall in A.R.

• The MR curve falls exactly between the AR curve and y-axis.

• Marginal revenue keeps falling, becomes 0 and then negative

• A.R. curve represents the demand function of the firm. (Inversely relⁿ between price & Quantity demanded).

∴ A.R. keeps on falling

The A.R. curve will never touch the x-axis.

As price will never be zero.

A.R. can never be 0 or negative.

M.R. is the slope of T.R. curve

M.R.

T.R.

same as
law of
D.M.O.

Positive

0

Negative

Increases at diminishing rate
Maximum
Falls

$$T.R = \sum M.R.$$

and

$$MR = \frac{\Delta TR}{\Delta Q}$$

Fig 3. Under perfect competition, $A.R = \text{price} = M.R.$

pg 4.9. Horizontal curve parallel to x-axis
A.R. curve is perfectly elastic

Under imperfect competition, $A.R = \text{price}$ (No price discrimination - assumption) and
M.R. < A.R.

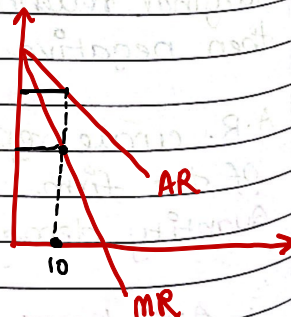
Q) Under which market, the M.R. & A.R. curve coincide.

a) Perfect competition

b) Imperfect competition

c) Monopoly

d) ~~no~~ All of the above



Imperfect
Comp.

$$MR = \frac{AR(e-1)}{e}$$

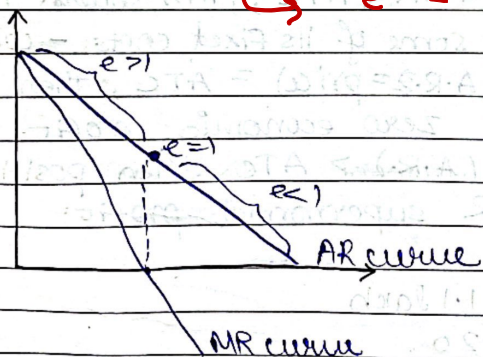
(e = price elasticity of demand)

Note:- [Always take the positive/absolute value of e]

e	MR	TR
$e = 1$	0	maximum
$e > 1$	positive	increasing
$e < 1$	negative	decreases

Using point elasticity method,

$$e = \frac{Ls}{Us}$$



- @ higher price, $e > 1$, $MR = +ve$, $TR \uparrow$
- @ middle point, $e = 1$, $MR = 0$, $TR = \max$
- @ lower price, $e < 1$, $MR = -ve$, $TR \downarrow$

Q) The MR curve touches X axis when :-
 → ~~a) $e = 1$~~ c) $e < 1$
 b) $e > 1$ d) $e = 0$

A competitive firm should shut down if the price is below the AVC in short run

- a) ATC
- b) AFC
- c) TC
- ☒ d) AVC

• Behavioural Principles :-

[I]

- 1) Sunk fixed cost is irrelevant in shut-down decision because F.C. are already incurred.
- 2) The minimum A.V.C. = shut down price
- 3) Shut down price is price at which firm ceases prodⁿ in short run
- 4) If $AVC < AR < ATC$, firm covers its variable costs and some of its fixed costs - continue prodⁿ.
- 5) If price (A.R. = price) = ATC, then normal profit OR zero economic profit. → includes normal π
- 6) If price (A.R.) $> ATC$, then positive economic profit OR supernormal profit.

Ex. $FC = 1.1 \text{ lakh}$

$AVC = 20$

$A.R. = 25$

demand = 10000 units

(A) If we don't produce :- Loss = 1.1 lakh

(B) If we produce :- loss = $1.1 - (5 \times 10000)$
 $= 60000$

$\therefore$ loss is lower if we produce (i.e. case B)

(I)

1) A firm will earn maximum profits when

a) $MR > MC$

b) $MR < MC$

c) $MR = MC$

d) None

2) When $MR > MC$, we will keep producing till the equilibrium point ($MR = MC$)

Q When demand for product is unitary elastic

a) TR increases

b) TR falls

c) TR is minimum

d) TR is maximum

Unit 2:- Price determination

- Price ceiling = upper limit = max. price that can be charged from the sale of a product.
ex. petrol, diesel, coal, fertiliser, etc.
- Floor price = lower limit = min. price at which the product will be sold
ex. wheat, rice, sugarcane, etc.

Equilibrium price is a.k.a market clearing price where, Qty supplied = Qty demanded

- Changes in demand & supply :-

Change	E.P.	E.Q.
Increase in demand	increase	increase
Decrease in demand	falls	falls
Increase in supply	falls	increases
Decrease in supply	increases	falls

Free market economy is one where forces of demand & supply are free to take their own course and there's no intervention from outside by gov. or any other entity

Simultaneous changes in demand & supply

(i) Demand $\uparrow$, supply $\uparrow$ EQ will pakka $\uparrow$,
but change in EP:-

If $\uparrow d$ more than $\uparrow s$,
then EP will increase, & vice versa

(ii) demand $\downarrow$, supply $\downarrow$ pakke se EQ will $\downarrow$
but EP change depends

If $\downarrow d$ more than $\downarrow s$,
then EP will decrease, & vice versa

(iii) Demand $\uparrow$, supply $\downarrow$ pakke se EP will $\uparrow$
EQ. depends

If $\uparrow d$ more than $\downarrow s$,
then EQ will increase, & v.v.

(iv) demand $\downarrow$ supply $\uparrow$ pakke se EP will $\downarrow$
EQ depends.

If $\downarrow d$ more than $\uparrow s$,
then EQ will decrease, & v.v.

~~Q~~

Conclusion :-

D & S same direction $\Rightarrow$ EQ $\Rightarrow$ surty

D & S opposite direction $\Rightarrow$ EP $\Rightarrow$ surty.