UNIT 1: MEANING AND TYPES OF MARKETS

1] Free Goods: Goods which are free/zero price goods.
- Abundant in Supply ---▶ No Scarcity
- Eg :- Sunlight, Air, etc.

2] Economic Goods: 1] Scarce in relation to their demand.
2] They have an opportunity cost.
3] Exchangeable in the market & commands a price.

PS5 ₹ 45000 Dyson

3] Price: 1] Quantity of money necessary to acquire goods or services.
2] Purchasing power of an article, expressed in terms of money

4] Value in Use or Value in Exchange:

Ma'am ka pen

Value in Use: It refers to the utility or usefulness that a product provides to a customer.

Value in Exchange: 1] **Amount of goods or Services** which we may obtain in the market in exchange of a particular thing.
- Pen

2] Amount someone is willing to give up in other goods & services in order to obtain goods or services.

---▶ In Economics, we are concerned with **Value in Exchange.**

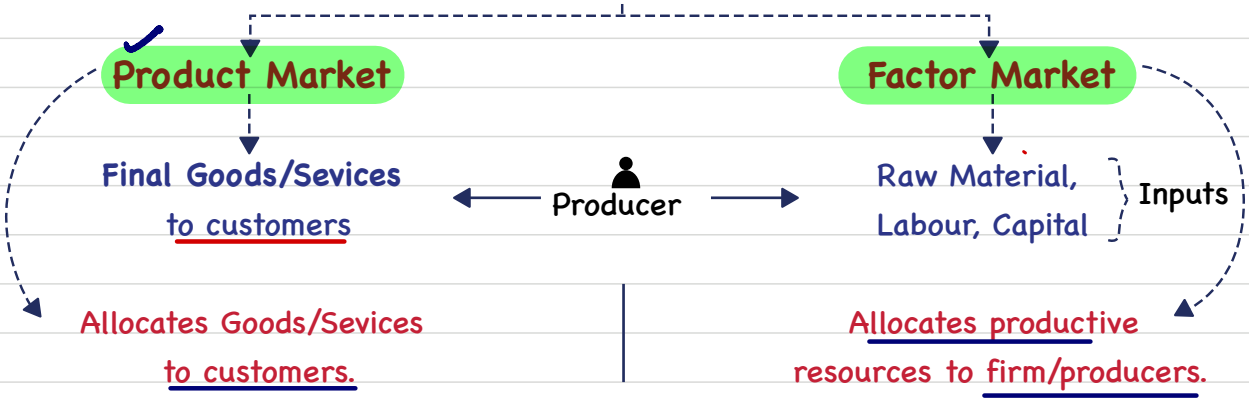
What is Market?

- Collection of buyers & sellers with potential to trade
- Market need not to be formal or held in a particular place.
  - Online Shopping
- The actual or potential interaction between buyers & sellers determine the price of goods or services.
  - Demand
  - Supply
- Market can be defined as all those buyers & sellers of goods or services who influence prices.

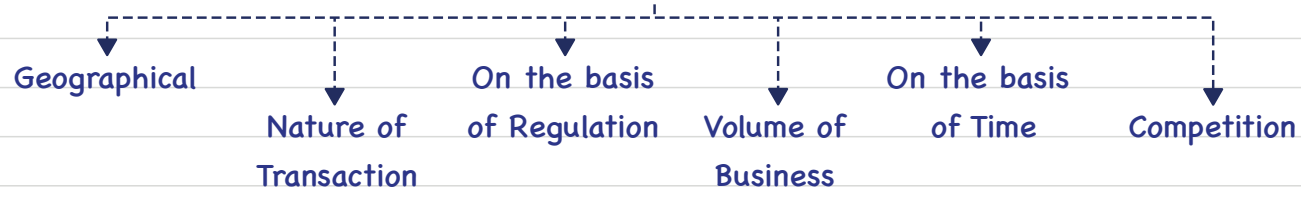
Elements of Market

- Sellers & Buyers
- Goods or Services
- Bargaining of a price
  - Power to influence
- Knowledge about Market conditions
  - Rational
- One price for goods/services at a given time.

1. Classification of Market



2. Classification of Market



1] Geographical Area:

1] Local Market: a) Buyers & sellers are limited to local area.
b) Highly perishable goods & bulky articles. *
c) Extent of market is limited to particular locality.
Eg :- Hair Dresser

2] Regional Market: a) Covers a wider area such as adjacent cities, part of states, etc.
b) Nature of buyers may vary in their demand characterstics.
Eg :- Traditional Assamese saree, is worn by women in Assam & adjoining areas.

3] National Market: a) Demand for a commodity is limited to the national boundaries of a country.
b) Trade policy of the government may restrict the trading of the commodity to within the country.

4] International Market: a) Goods are exchanged internationally.
b) High value & small bulk commodities.
Eg :- Gold, Silver.

---▶ The above classification has become more or less out-dated.

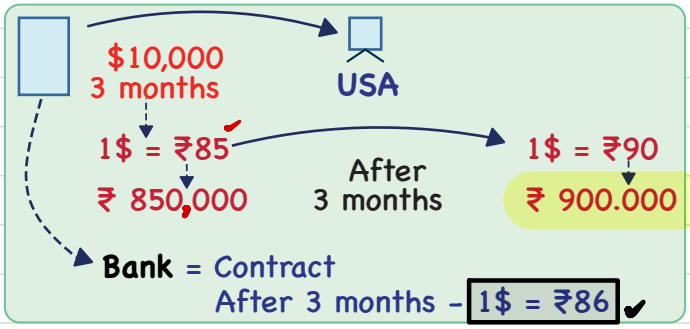
→ 2] On the basis of Nature of Transaction :

1] Spot/cash Market: a) Goods are exchanged for money payable either immediately or within a short span of Time.

Eg :- Grains sold in the mandi at current prices.

2] Forward or Future Market: Transactions involve contracts with a promise to pay & deliver goods at some future date.

Eg :- Purchase of foreign currency contract at future rate from Bank.



→ 3] On the basis of Regulation :

1] Regulated Market: Transactions are statutorily regulated
To avoid unfair practices

Eg :- Stock Market
→ Regulated by SEBI

2] Unregulated Market: Free Market (restrictions)
- No stipulations on transactions

Eg :- Weekly Markets [Haat Bazar]

→ 4] On the basis of Volume of Business:

1] Wholesale Market: a) Commodities are bought & sold in bulk or large quantities.

b) B 2 B (Business / Business)

Manufacturer ---> Wholesaler ---> Retailor ---> Consumer

Wholesaler ↔ Retailor : Business

2] Retail Market: a) Sold In Small quantities.

b) Market for ultimate consumers
- B 2 C.

5] On the basis of Time:

Alfred Marshall

1] Very Short period Market: a) Supply is fixed & cannot be increased/decreased.
Market Period
Eg :- Perishable goods, like vegetables.
b) Very short period price is dependent on Demand.
Demand ↑ Price ↑ ✓

2] Short period Market: a) Slightly longer than very short period.
b) Supply of output may be increased by increasing variable factor.
c) Change in short period price on account of change in demand is less as compared to Market period. Supply me thoda sa change aayega.

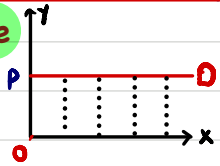
3] Long period Market: a) All factors are variable.
Supply can be changed by changing scale of production.
b) Interaction between Long run Supply & Demand determines long run equilibrium price or 'normal price'.

4] Very Long period Market: Secular movements are recorded in certain factors over a period of time.
Secular Period
Size of Population

6] On the basis of Competition:

Perfect Competitive Market | Imperfect Competitive Market

1] Perfect Competitive Market: a) Very Large number of Buyers & Sellers.
b) Identical product. → No product differentiation
c) Sellers have no control over price.
→ No bargaining power
- Price is decided by Market Demand & Supply.
d) Price Elasticity :- Infinite
Goods → Perfect Substitute



2] Imperfect Competitive Market:

Monopolistic | Monopoly | Oligopoly

1] Monopolistic:
- a) Product Differentiation. → Products are similar but not identical
  - → Shampoo
- b) Large number of Sellers.
- c) Sellers have some control over price.
  - → Because of Differentiation
- d) Price Elasticity: Large → Elastic $e>1$
  - Goods – Close Substitute

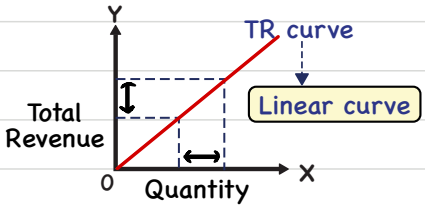
2] Monopoly:
- a) Single Seller. → [Railway- IRCTC]
- b) Product is extremely differentiated..
- c) Very considerable degree of control over price.
- d) Price Elasticity: Small → Inelastic $e<1$

3] Oligopoly: 2-10
- a) Few Large Sellers. → Having a significant market share.
- b) Product Differentiation: None to substantial
  - Telecommunication
  - Automobile
- ✔ c) Some degree of control over price.
- ✔ d) Price Elasticity: Small → Inelastic [Jio, Airtel]
  - Interdependence [Jio, Airtel] ⟷ Prod. diff. [Automobiles]
  - ↓ P ↓ Demand

Assumptions	Market Types			
	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
Number of Sellers	Very large	Large	Small numbers	One
Product differentiation	None	Slight	None to Substantial	Extreme
Price elasticity of demand of a firm	Infinite	Large $e>1$	Small	Small $e<1$
Degree of control over price	None	Some	Some	Very Considerable

Total Revenue, Average Revenue & Marginal Revenue

1] Total Revenue = Price × Quantity Sold



Perfect Competition

TR of a competitive firm having perfectly elastic demand curve.

Eg :-

Price	Q	TR
10	5	50
10	10 (2X)	100 (2X)

2] Average Revenue

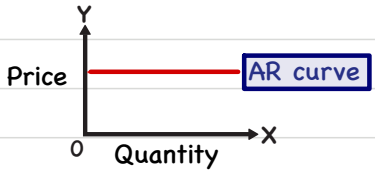
→ Revenue per unit of output

$AR = \frac{TR}{Q} \Rightarrow \frac{P \times Q}{Q} = Price$

AR = Price of one unit of output

Imperfect Competition

Perfect Competition



AR curve = Demand curve

3] Marginal Revenue

→ Change in TR resulting from sale of additional unit of output.

Eg 1 :-

Q	TR	
10	1000 (TR_{10})	MR = 100 ✓
11	1100 (TR_{11})	$TR_{11} - TR_{10}$ [$TR_N - TR_{N-1}$]

(+100)

Eg 2 :-

Q	TR	
10	1000	$MR = \frac{\Delta TR}{\Delta Q} \Rightarrow \frac{400}{5} \Rightarrow$ MR = ₹80
15	1400	

(5)

$\frac{400}{5} = 80$

Imperfect Competitive

Units	Total Revenue	Average Revenue	Marginal Revenue
1	10	10	10
2	18	9	8
3	24	8	6
4	28	7	4
5	30	6	2
6	30	5	0
7	28	4	-2
8	24	3	-4
9	18	2	-6
10	10	1	-8

1] Why MR is not equal to price of the commodity ?

1 unit = ₹10

2 units = ₹9 + ₹9

(1) + 9 = ₹8

TR of 2 units = ₹9 + ₹9

3 units = ₹8 + ₹8 + ₹8

(2) + 8 = ₹6

2] TR is max, at unit 6, when MR =0.

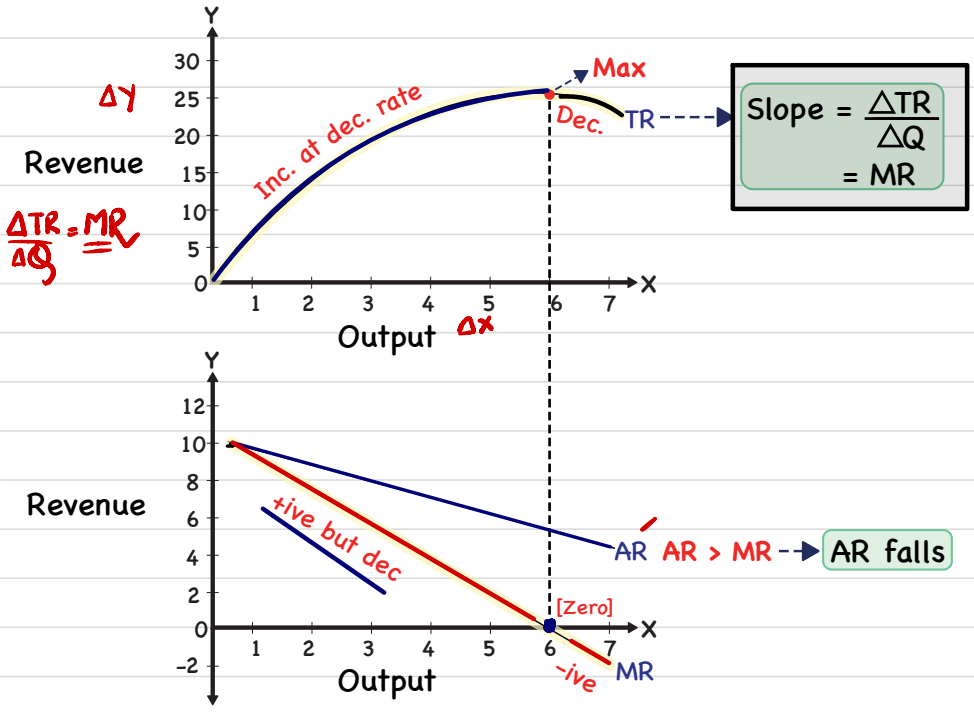
3] AR keeps on falling, showing inverse relationship between price & quantity demanded.

4] MR keeps on falling & after becoming zero, it becomes negative.

TR = ∑ MR

5] For only falling AR, MR is always less than AR/price. MR < AR

Imperfect Competitive Firm:



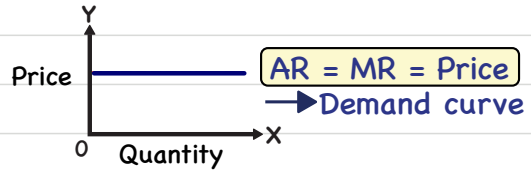
1] MR curve lies below AR Curve showing that MR declines more rapidly.
2] TR increases as long as MR is positive & declines when MR is negative.
3] TR initially increases at diminishing rate due to diminishing MR & reaches max, when MR is zero & then falls.

→ Perfect Competitive Firm:

1] Firms are price taker. ✓
2] AR or demand curve is perfectly elastic. ✓

Eg :-

Q	AR/Price	TR	MR
1	10	10	10
2	10	20	10 ✓
3	10	30	10 ✓



Imp

→ Relationship between AR, MR, TR & price elasticity of Demand

$$MR = AR \times \frac{e - 1}{e}$$

1] e = 1 → $MR = AR \times \left[\frac{1 - 1}{1}\right]$

MR = 0 ----→ TR is maximum

e=1, MR=0, TR max

2] e > 1 → $MR = AR \times \left[\frac{1.5 - 1}{1.5}\right]$ (+ive)

[For eg- 1.5]

MR = +ive ---→ TR will increase

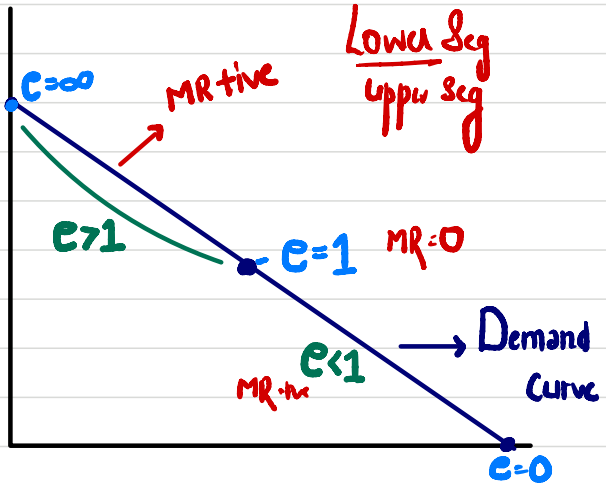
e>1, 1.5, AR × (1.5−1)/1.5, +ive, MR +ive, TR increasing

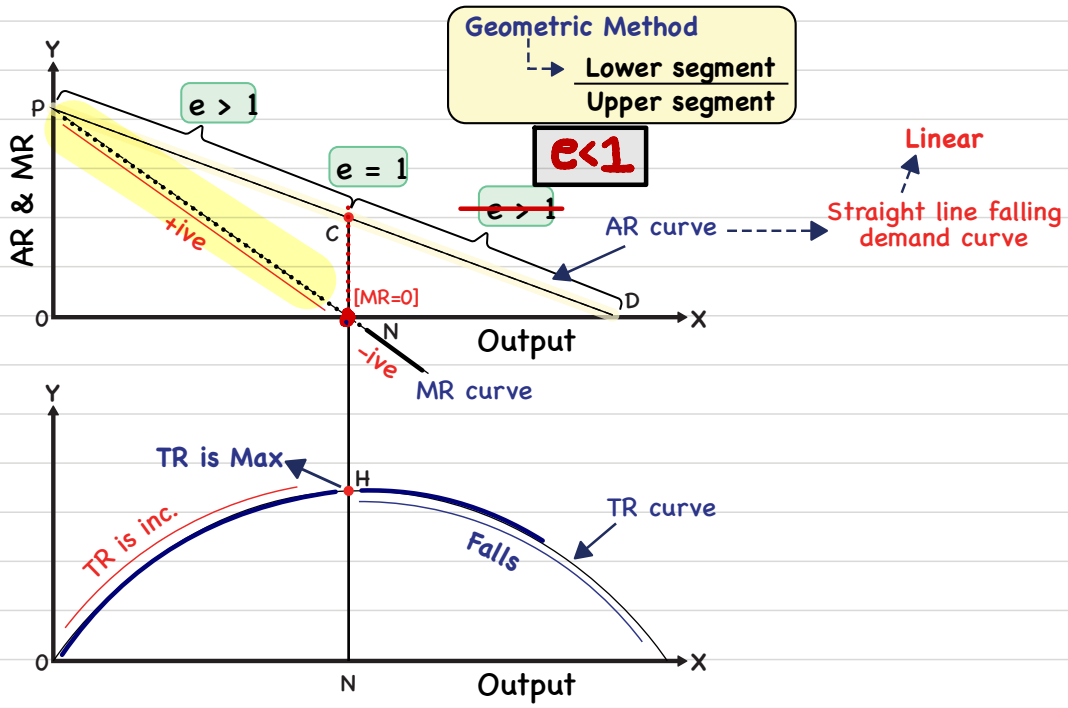
3] e < 1 → $MR = AR \times \left[\frac{0.2 - 1}{0.2}\right]$ (-ive)

[For eg- 0.2]

MR = -ive ---→ TR will fall

e<1, 0.5, AR × (0.5−1)/0.5, -ive, MR -ive, TR falls





Behavioural Principles

→ 1] Firm should not produce at all if its TVC are not met.

Eg 1 :- Tina Clothing

Rent = ₹24000
→ Fixed cost --→ Sunk cost

Output - 1000units
TVC - ₹25,000 | AVC - ₹25
TR - ₹50,000 | AR - ₹50 | ATC - ₹49
TFC - ₹24,000 | AFC - ₹24

2 options

Shutdown	Continue
Loss -₹24000	TR - ₹50000
	TC - ₹49000
	Profit = ₹1000

TR > TC
AR > AC

Positive Economic Profit
or
Super Normal Profit

Eg 2 :- Output - 1000units

TVC - ₹25,000 | AVC - ₹25

TR - ₹49,000 | AR - ₹49 } ATC - ₹49

TFC - ₹24,000 | AFC - ₹24

2 options

Shutdown
Loss -₹24000

Continue ✓
TR - ₹49000
TC - ₹49000
×

Normal Profit
or
Zero Economic Profit

Eg 3 :- Output - 1000units

TVC - ₹25,000 | AVC - ₹25

TVC < TR
TR - ₹40,000 | AR - ₹40 } ATC - ₹49

TFC - ₹24,000 | AFC - ₹24

2 options

Shutdown
Loss -₹24000 ✓

Continue ✓
TR - ₹40000
TC - ₹49000
(₹9000)

TR > TVC
or
AR > AVC

Eg 4 :- Output - 1000units

TVC - ₹25,000 | AVC - ₹25

TR - ₹20,000 | AR - ₹20 } ATC - ₹49

TFC - ₹24,000 | AFC - ₹24

2 options

✓ Shutdown
Loss -₹24000

TR < TVC
or
AR < AVC

Continue
TR - ₹20000
TC - ₹49000
Loss - (₹29000)

TR > TVC
Continue.
TR = TVC, TR < TVC,
Shutdown

Eg 5 :- Output - 1000units

TVC - ₹25,000 ✓ | AVC - ₹25
TR - ₹25,000 ✓ | AR - ₹25
TFC - ₹24,000 | AFC - ₹24
ATC - ₹49

24000
TC = 49000
TR = 25000

TR = TVC
or
AR = AVC
→ Shutdown cost

→ **Imp points :**

TR < TVC

1] If firms TR are not enough to make good even the TVC, it is better for the firm to shutdown.
→ AR/Price is below AVC
AR < AVC

AR < AVC
TR < TVC

TR > TVC

2] If AR/Price > AVC, but less than ATC [Eg 3]
ATC > AR > AVC,
Firm covers its variable cost & some part of FC. - Continue

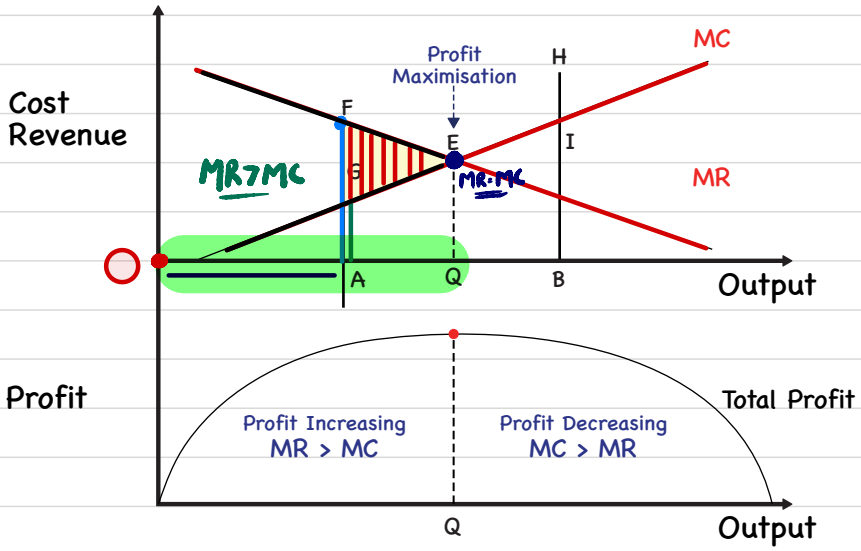
TC > TR - Loss
TR > TVC

3] If AR/Price = ATC, [Eg 2]
TR = TC
Firm covers both FC & VC.
- Normal Profit
- Zero Economic Profit

4] If AR/Price > ATC.
TR > TC
- Positive Economic Profit
- Super Normal Profit

5] AR = ~~ATC~~ AVC
TR = TVC
- Shutdown point

2] Max Profit → MR = MC



1] If MR > MC, produce additional units. ✔

2] For all levels of output, less than Q, add unit of output add more to revenue than cost.

→ MR > MC, profitable to produce more.

3] If stops at A, firm will be foregoing profit equal to EFG.

4] Profit will fall, if greater output than OQ is produced.

Max profit at OQ output

MR

Unit 1 over :)