Q1. What is market?

Ans. Market refers to a place where buyers and seller comes in contact with each other to buy and sell the good.

Q2. What is perfect competition & its features?

Ans. It refers to a market situation where there are very large no. of buyers and sellers dealing in homogeneous good at a price fixed by the market.

EXAMPLE:- Markets for agriculture goods like wheat and vegetables.

- **FEATURES:-**
- **VERY LARGE NUMBER OF BUYERS AND SELLERS;-** In perfectly competitive market, there are very large number of buyers and sellers.
  IMPLICATIONS;- Very large number of buyers and sellers makes that the number of seller is so large the share of each seller is significant in the total supply. Hence an individual seller cannot influence the market price. Similarly, a single buyer share in total purchase is so significant because of the large number of buyers. So that an individual buyer cannot influence the market price by purchasing in large quantity or not buying any quantity. Under such condition price of the commodity is determined by the market forces of demand & supply & each buyers and seller has to accept the same price.

- **OMOGENEOUS PRODUCT;-** The products after the sale in the market are homogeneous that is the product sold is identical in all respect like size, shape, quality, colour etc. Since each firm produces 100% identical product. Their product can be easily substituted for each other so the buyer has no specific performance to buy from a particular seller only.
  IMPLICATIONS;- It is that buyers treat the product as identical. Therefore the buyers are willing to pay only the same price for the product of the firms in the industry. It also implies that no individual firm is in the position to charge higher price for its product. If he charges the buyer will shift to another seller. If he charged lower price he has to suffer undesirable loss. So, uniform price prevails in the market.

- **FREEDOM OF ENTRY & EXIT:-** Every seller has the freedom to enter & exit the industry. There are no artificial & natural barriers for entry of new firms and exit of exiting firms. It ensures absence of sub-normal profits and abnormal losses in long run.
- **IMPLICATIONS:-** It is that all firms will run earn only normal profit in long run. A firm earn abnormal profits and losses in short run as firm are not in a position to enter or leave the industry. But in the long run any abnormal profit induces new firms to enter the market which result total supply increases and market price reduces. This trend continuous till profits are reduced to normal. Similarly, abnormal losses leave to exit of exiting firms which reduces the total supply. It leads to rise in price till the losses are wipedout.

- **PERFECT KNOWLEDGE AMONG BUYERS AND SELLERS:-** It means that both buyers and sellers are fully informed about the market price.
  IMPLICATIONS;- No firm is in a position to charge different price and no buyer will pay higher price. As a result, uniform price prevails in the market. Both buyer and seller have the perfect knowledge about the product market sellers also have perfect knowledge about the input market. That is each firm has an equal access to the technology and the inputs used in the production. As a result, all the firms have a uniform cost structure. Since there is a uniform price and uniform cost. In case of all firms, all the firms earn uniform in profit.
- **PERFECT MOBILITY FACTORS OF PRODUCTION;-** The factors of production (land, labour capital and entrepreneurship) are perfectly mobile there is no geographical and occupational

restrictions on their movement. The factors are free to move to the industry in which they get the best price.

- **ABSENCE OF TRANSPORTION COST;-** In order to insure uniforms price in the market. It is assumed that transportation cost is zero. Producer can sell his product any place and a buyer can buy it from the place he likes.

- **ABSENCE OF SELLING COST;-** Selling cost refers to the cost of advertisement of the product. In perfect competition there are no selling cost because of perfect knowledge among buyers and sellers.

Q3. How price is determined under perfect competition.
Ans. Under perfect competition firm is a price taker and industry is the price maker. Which means price is not determined by the firm but by the industry, by the market forms of demand and supply. Price determined at a point where demand and supply intersect each other.
Diagram:

In the above diagram the demand curve and supply curve intersect at point P and OP is the price which he adopted by the firm. And firm fue to sell quantity at this price. This makes AR curve perfectly elastic and parallel to x-axis. So AR and MR equal. According to AR and MR relation when AR constant MR = AR. So AR also the MR curve of the firm.

Q4. Demand curve under perfect competition.
Ans. In case of perfect competition, there are very large number of buyers and sellers selling the homogeneous product at a price fixed by market. Therefore each firm is aprice taker and faces a perfectly elastic demand curve.
Diagram:

Firms demand curve is indicated by the horizontal straight line parallel to x-axis as each firm has accepted price fixed by the industry. The price is determined at OP.

Q5. What is monopoly and its features?

Ans. It refers to market situation where there is a single seller selling a product which has no close subtibstitutes.

EXAMPLE:- Railways in India.

- **FEATURES**:-

1. SINGLE SELLER;- Under monopoly there is a single seller, selling the product. As a result. monopoly firms and industry are one and the same thing and monopolist has a full control over the supply and the

price of the product. However. there are large number of buyers and monopoly product and no single buffer can influence the market price.

2. **NO CLOSE SUBSTITUTES**:- The product produced by the monopolist has no close substitute. So monopoly firms has no fear of a competition from new or existing products.
   EXAMPLE:- There is no close substitute of electricity services provided by TPODL in some part of Delhi.
3. **RESTRUCTION ON ENTRY AND EXIT**:- There exist strong barriers to the entry of new firms and exit of existing firms. As a result. Monopoly firm can earn abnormal profits and losses in the long run. These barriers may be due to legal restrictions like licensing. patent right or due to restrictions created by the firms in the form of cartel.
4. **PRICE DISCRIMINATION**:- A monopolist may charge different price for his product from different sets of a consumer at a same time. It is known as price discrimination. It is of three types.

- **PERSONAL PRICE DISCRIMINATION**:- In this, some product is sold at different prices to different kinds of buyers.
  EXAMPLE:- Railway ticket is cheaper for senior citizens as compared to young citizens.

- **PLACE PRICE DISCRIMINATION**:- Some product is sold at different prices at a different places.
  EXAMPLE:- Electricity charges are lower for rural areas as compared to urban areas.

- **USE PRICE DISCRIMINATION**;- Some product is sold at different prices On the basis different uses.

  EXAMPLE:- Electricity charges are lower for residential house as compared to commercial use.
- **PRICE MAKER**;- In case of monopoly firm and industry are one and the same thing. So firm has complete control over the industry output. As a result, monopolist is a price maker and fixed its own price. It can influence the market price by changing the supply of product.

Q6. What are the reasons for the emergence of monopoly?

Ans.

1. **GOVTERNMENT LICENSING**;- If firm want to enter the industry., it need to take permission from the government licensing is used to ensure minimum standard of competency.

2. **PATENT RIGHTS**;- Certain big private companies are engaged in research and development activities. At time they come up with new products and new technologies. As a result, for their rise and investment in research government grants them patent rights.

3. **CARTELS**:- Under this some firms retain their individual identities but their Output and pricing policy in order to act as a monopoly. The firm's agree among themselves to restrict their total output to the level that maximum their joint profits.
   EXAMPLE:- Organisation of petroleum countries (OPEC).

4. **CONTROL ON RAW MATERIAL**:- Monopoly also arises due to ownership or control of certain essential raw material needed in particular industry.

Q7. What is demand curve under monopoly?

Ans. A monopoly firm is like an industry as the single seller constitutes the market for the product which has no close substitutes. So monopolist has full freedom and power to fix to price for the product. However, demand of the product is not in the control of monopoly turn. In order to increase the output to be sold monopolist will have to reduce the price because monopoly firm faces downward sloping demand curve.

Diagram:

At price OP, seller can sell OQ quantity. Demand rises to OQ, if the price is reduced to OP. So, demand curve under monopoly is very sloped as more quantity can be sold only at a lower price.

Q8. How MR and AR under monopoly?

Ans. A monopoly firm faces as a downward sloping demand curve as more output can be sold only be reducing the price. As a result, revenue generated from every additional unit, is less than the price (AR) of the product. So, MR is less than AR.

Q9. What is monopolistic and its features?

Ans. It refers to a market situation where there are large number of firms 'which sell close related but differentiated products.

EXAMPLE:- Toothpaste

❖ **FEATURES**;-

1. **LARGE NUMBER OF SELLERS**;- There are large number of firms selling, closely related but not homogeneous products, Each firm acts independently and has the limited share of the market. So an individual firm has limited control over the market. Large number of firms leads to competition in the market.

2. **PRODUCT DIFFERENTIATION**:- Each firm is in a position to exercise some degree of monopoly through product differentiation. Product differentiation refers to differentiating the product on the basis of brand, size, colour, shape. The product firm is close but not perfect substitute of other firm. **IMPLICATION**;- Product differentiation is that buyers of a product different between the same product produce by different firm. Therefore, they are also willing to pay different price for the same product produced by different firms. This give sonic monopoly power to an individual firm to influence the market price of its product.

3. **SELLING COST**;- Under monopolistic competition product are differentiated and these difference are made known to the buyers through selling cost. Selling cost refers to the expenses incurred on marketing, sale promotion and advertisement of the product. Such cost are incurred to persuade the buyers buy a particular brand of the product, in preference to competitors brand. Due to this reason selling cost constitute a substantial part of the total cost under monopolistic competition.

4. **FREEDOM OF ENTRY OR EXIT**;- Firms are free to enter or exit the industry at any time they wish. It ensures that there are neither abnormal profits nor any abnormal losses to a firm in the long run.

5. **LACK OF PERFECT KNOWLEDGE**:- Buyer and seller do not have perfect knowledge about the market condition. Selling cost create artificial superiority in the minds of the consumer and it became very difficult for a consumer to evaluate different products available in the market. As a result, particular product is preferred by the consumer even if other less price product is of some quality.

6. **PRICE IN CONTROL**:- A firm under monopolistic competition is neither a price taker nor price maker. However, by producing a unique product or establishing a particular reputation each firm has partial control over price. The extend of power to control price depends upon how strongly the buyers are attached to his brand.

7. **NON-PRICE COMPETITION**;- Firm under monopolistic competition in number of ways to attract customers. They use both price competition which is competing with other firm by reducing the price of the product and non-price competition. It refers to competing with other firms by offering free gifts, making favorable credit terms etc. without changing the price of their own product.

Q10. What is demand curve under monopolistic?

Ans. Under monopolistic competition large number of firm selling closely related but differentiated products making the demand curve downward sloping. It implies that firms can more output only by reducing the price of its product.

Diagram:

At OP price seller can sell OQ quantity. Demand rises to OQ1 when price reduce to OPI. So demand curve under monopolist competition is negatively sloped as more quantity can be sold at lower price. So MR is also less than AR under monopolistic competition due to negatively sloped demand curve.

Q11. What is oligopoly?

Ans. It refers to market situation in which there are few firms selling homogeneous and differentiated products. **EXAMPLE**:- Automobiles, cement, steel etc.

❖ **FEATURES**:-.

1. **FEW FIRMS**;- Under oligopoly there are few large firms the exist number of firm is not defined each firm produces a significant portion of total output. There exist several competition among different firms and output and each firm try to manipulate both price and output of production to outsmart each other.
   EXAMPLE:- The market for automobiles.

2. **INTERDEPENDENCY**:- Firm oligopoly are independent. Independence mean that action of one firm affect the actions of other firms. A firm consider the action and reaction of the rival forms while determining its price and output level. A change in output and price by one firm evokes reaction from other firms in the market.
   Example:- Market for cars in India dominated by few firms. Maruti, TATA, Honda etc. A change by any one firm in any of its vehicle will inverse other firms to make change in their respect in vehicles.

3. **NON-PRICE COMPETITION** :- Under oligopoly firms are in position to influence the price. However, they tried to avoid price competition for the fear of price war. They follow the policy of price rigidity. Price rigidity refers to a situation in which price tensed to stay fixed irrespective of change in demand and condition. If a firm tries reduce the price the rival firms also react by reducing their prices. However, if it tries to rise the price other firms might not do so. It will lead to loss of customers for the

firm. Which intended to rise the price. So firm prefer non price competition which advertising, better services to customers and free gifts.

4. **BARRIES TO ENTRY OF FIRMS**:- These are barriers which prevent entry of new firms into the industry patent requirement of marge capital, control over raw material are some of the reasons which prevent new firms from entering into the industry. Only those firms enter into the industry which are able to cross these harriers. As a result, firm can earn abnormal profits in the long run.

5. **ROLE OF SELLING COST**;- Due to the competition and interdependence of the firms various sale promotion techniques are used to promotion sale of the product.

6. **GROUP BEHAVIOUR**:- There is complete interdependence among difference firms. So price and output decision of a particular firm directly influence the competition firms instead of independent price and output strategy. Oligopoly firm prefer group decision that will protect the interest of all the firms. Group behavior means that firms tend to behave as if they were single firm even through individually. They retain their independence.

7. **NATURE OF THE PRODUCT**:- The firm under oligopoly may produce homogenous or differentiated products.

- If a firm produces homogeneous product like cement or steel the industry is called pure or perfect oligopoly.
- If the firm produce differentiated product like automobiles the industry is called imperfect oligopoly.

8. **INDETERMINATE DEMAND CURVE**:- Under oligopoly the exact behaviour pattern °la producer cannot be certainty so demand curve face by an oligopolist is indeterminate as firms are inter dependent firms cannot ignore the reaction of the rival firms any change in price by one firm leads to change in price by the competing firms. So demand curs e keeps on shifting and it is not definite. Rather it is indeterminate.

Q12. What are the types of oligopoly?

Ans.

- **PURE OR PERFECT OLIGOPOLY**:- When firm produces homogeneous product like cement and steel.
- **IMPERFECT OLIGOPOLY**:- When firm produces differentiated products like cigarette's, soft drink, passenger cars.
- **COLLUSIVE OLIGOPOLY:-** If the firm cooperate with each other in determining price or output both it is called collusive oligopoly.
- **NON COLLUSIVE OLIGOPOLY:-** If firm is an oligopoly market complete with each other it is called non collusive oligopoly.
- **DUOPOLY:-** In which there are exactly two sellers under duopoly. It is assumed that product sold by the two firms is homogeneous and there is no substitute for it.
  EXAMPLE:- Where two companies control are large proportion of the market like pepsi and coca-cola in the soft drink market.