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Lecture No - 24 : Theory of Market

Session Outline

- Market – Definition ,types
- Equilibrium condition
- Price Determination

Market

A **market** is any one of a variety of different systems, institutions, procedures, social relations and infrastructures whereby persons trade, and goods and services are exchanged, forming part of the economy.

It is an arrangement that allows buyers and sellers to exchange things.

In mainstream economics, the concept of a **market** is any structure that allows buyers and sellers to exchange any type of goods, services and information.

Market

The main feature of market is that sellers and buyers should be able to get in close contact with each other.

The requirement for the buyers and sellers is to well informed about prices prevailing and other condition.

Market

A market is any organization whereby buyers and sellers of a good are kept in close touch with each other.

Basic Components : Consumers, Sellers,Commodity and Price

Criteria for Market Classifications

Classification by Area: Local, National and Regional

Classification by Nature of Transaction: Spot and Future

Classification by Volume of Business: Wholesale or Retail

Criteria for Market Classifications

Classification on the Basis of Time: Short Period , Long Period

Classification by Status of Seller: Primary and Secondary

Classification by Nature of Competition: Substitutability factor, Interdependence factor and Ease of entry factor

Various Form of Market Structure

Form of Market Structure	Number of Firms	Nature of Product	Price Elasticity of Demand for an Individual Firm	Degree of Control over Price
Perfect Competition	Large no of firms	Homogeneous	Infinite	None
Monopoly	One	Unique product without close substitute	Very small	Considerable
Monopolistic	Large no of firms	Product differentiation by each firm	Large	Some
Pure Oligopoly	Few Firms	Homogeneous product	Small	Some
Differentiated Oligopoly	Few Firms	Differentiated Product	Small	Some

Equilibrium of the Firm

Firm is said to be in equilibrium when it has no tendency either to increase or to contract its output.

Firm's equilibrium level of output will lie where its money profits are maximum.

Firms will attempt to maximize the difference between Total revenue and total cost.

Equilibrium of the Firm

1. Equilibrium of the firm by curves of Total revenue and Total Cost
2. Equilibrium of the Firm by Marginal revenue and Marginal cost

Price Determination : Equilibrium between Demand and Supply

Time element in the theory of Price

Marshall divided time periods into four category: Market period, Short Period, Long Period and Secular Period.

Determination of Market Price

Market period – short period – supply in fixed- no adjustment

Price prevailing is market price which changes with the nature of the commodity.

Determination of market price – demand and supply

Determination of Market Price

Perishable good

Durable goods

Determination of short run price

In the short period firm will keep on producing even if they are not able to cover average total cost but are able to cover the average variable cost.

If they stop production, they will be loosing their fixed cost.

Determination of short run price

The equilibrium price in the short period is called the short period normal price, which is determined by the intersection of the short period normal supply and demand curve.

Determination of long run price

Long run price –normal price- determined by the long run equilibrium between demand and supply when the supply condition have fully adjusted to the given demand conditions.

Given the demand, a price will tend to prevail in the long run when supply has fully adjusted and that price is known as long run price or normal price.

Session References

Managerial Economics : Dr Atamanand