Price and Output Determination under Various Market Forms

Presentation by
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Perfect Competition: A perfectly competitive industry is made up of a large number of small independent firms, each selling homogeneous (identical) products to a large number of buyers.

Characteristics of Perfect Competition:
- Large number of buyers and sellers
- Homogeneous product
- Perfect knowledge of market to buyers and sellers
- All firms are price taker
- No transport cost
- Perfectly elastic demand curve
- No barrier on entry and exit
- All Firms get normal profit in long
Price and Output determination with abnormal profit
In the situation shown below, a firm is making losses in the short run, perhaps because of a fall in industry demand which has caused a fall in the market clearing equilibrium price.
No barriers to entry and supernormal profits encourage the entry of new firms shifting market supply & price downward until price falls back to P2. Normal profits are restored.
An Outward Shift in Market Demand –

Short Run Market Supply is Inelastic

An Outward Shift in Market Demand –

Long Run Market Supply is Elastic

Price

SR8

P4

P2

Q1

Q2

Q3

Quantity

D2

D1

P1

P2

c

b

LR8

D2

D1
MONOPOLY - Characteristics

A market structure in which one firm sells a unique product into which entry is blocked in which the single firm has considerable control over product price and in which non-price competition may or may not be found.

A. NUMBER OF FIRMS: single firm

B. TYPE OF PRODUCT: unique product, no close substitutes

C. CONTROL OVER PRICE: "price makers"

D. EASE OF ENTRY: blocked entry

E. NONPRICE COMPETITION: public relations
Price and output determination in monopoly in Short Run

Equilibrium of the firm with abnormal Profit
Price and output determination in monopoly

Equilibrium of the firm with Loss
Equilibrium in Single-Price monopoly and perfectly discriminating monopoly
Monopolistic competition is a type of imperfect competition such that many producers sell products that are differentiated from one another (e.g. by branding or quality) and hence are not perfect substitutes. In monopolistic competition, a firm takes the prices charged by its rivals as given and ignores the impact of its own prices on the prices of other firms.

Monopolistic competitive markets have the following characteristics:

- There are many producers and many consumers in the market
- No firm has total control over the market price
- Product Differentiation
- Few barriers to entry and exit
- Producers have a degree of control over price
- More elastic demand curve than perfect competition
- Each firm spends a substantial amount on advertisement
- Each firm gets normal profit in the long run
Price and output determination in monopolistic competition in Short Run
Price and output determination in monopolistic competition in Long Run

In Long Run two changes will occur:

- Firm demand will decrease.
- Firm demand will become more elastic.