Pricing Under Perfect Market Conditions

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Pricing Under Perfect Market Conditions
Topic

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- Pure Competition: Meaning and Features
- Features of Perfect Competition
- Price Determination in Perfect Competition
- Equilibrium of Firm and Industry in Short Run and Long Run
What is Market?

The term market is derived from the Latin word “Marcatus” which means merchandise or trade. Market is a place where buyers and sellers meet together for the exchange of title of goods.

**Definition:**

- “Market is a area or atmosphere of potential exchange”
  
  ---- Prof. Mitchel

- “Market is not a geographical meeting place but as any getting together of buyers and sellers, in person, by mail, telephone, telegraph and internet or any other means of communication”

------ Phillip Kotler
Market

- Markets means an open place or large building where actual buying and selling takes place.

- The market may extend to a locality, village, town, region or a country according to the demand of a commodity. Market includes both place and region in which buyers and sellers are in free intercourse with one another.

- Marketing includes those business activities that direct the flow of goods and services from producer to consumer.
Market Structure

Market structure is the interconnected characteristics of a market such as.....

❖ The number and relative strength of buyers and sellers.
❖ Degree of freedom in determining the price.
❖ Level and forms of competition.
❖ Extent of product differentiation.
❖ Ease of entry into and exit from the market.
The types of Market Structure

- Perfect Competition
- Monopoly
- Monopolistic Competition
- Oligopoly
- Duopoly
Markets Classification

- On Geographical Basis
- On The Basis of Important
- On the basis of volume of transaction/Business
- On the basis of Economic
- On the basis of Time
- On the basis of Nature of Goods
Market Classification on the basis of Geographical classification

- **Local/Village Markets:**
  Buying and selling activities are confined among buyers and sellers of the village or nearby villages mostly for perishable commodities.

- **Regional markets:**
  (District/ State) Buyers and sellers for among commodity are drawn large area than the local markets in India there generally exist for food grains.

- **National Markets:**
  Buyers and sellers are at National level e.g. Durable goods such as Jute, Tea.

- **International/World Markets:**
  Buyers and sellers drawn from the world biggest markets form area point of view and exist for commodities having world wide demand e.g., Coffee, Gold, silver.
Market Classification on the basis of importance

- **Primary Wholesale Markets:**
  These are located in big towns near the centers of production of agriculture commodities, transaction mostly take place between farmers and traders.

- **Secondary Wholesale Markets:**
  These are generally located at districts headquarters or important trade centers near railway stations. Produce is handled in large quantity.

- **Terminal Markets:**
  Here produce is either finally disposed off to the consumers or processors or assembled for export. These are located in Metropolitan cities like Mumbai, Madras and Calcutta.
Market Classification on The basis of volume of transaction/Business

- Wholesale Markets:
  Here commodities are brought by and sold in large lots or in bulks. Transaction takes place generally between traders.

- Retail markets:
  Here commodities are brought by and sold to the consumers as per their requirement.
Market Classification on the basis of Economics

- **Perfect market:**
  A market said to be perfect, when all potential sellers and buyers are promptly aware of the prices at which transaction takes place, any buyers can purchase from any sellers. The principle underlying a perfect market expects that there must be a uniform price for any one standardized commodity at a particular time at any place, there should not be restriction on the movement of a commodity, there must be a good number of buyers and sellers.

- **Imperfect market:**
  A market is said to be imperfect where, some buyers or sellers or both are not aware of the prices at which transactions takes place. There is restriction for movement of goods.
Imperfect Markets

- **Imperfect markets are:**
  - Monopoly market: There is only one seller of the commodity
  - Monopolistic competition: A large number of sellers will deal in heterogeneous and differentiated form of a commodity
  - Oligopoly market: There are more than two but a still a few sellers of commodity
  - Duopoly market: It has two sellers of a commodity.
Market Classification on the basis of Time

- **Very Short Period Markets:** These are for few hours and are mostly for highly perishable commodities like fruits, vegetables, fish, milk, etc.

- **Short Period Market:** In these markets commodities are perishable and can be traded for some time. This commodities are like foodgrains and oilseeds.

- **Long Period Markets:** Time span available is long to adjust supply to meet demand even by managing production. These markets can be for machinery and manufactured goods.
Market Classification on the basis of Nature of Goods

- **Commodity markets**
  - Produce exchange- commodities are produced and not manufactured. Generally one market in one commodity. e.g. cotton exchange Mumbai.
  - Manufactured goods markets: These are markets of manufacture and semi manufactured goods. For e.g. Leather exchange of Kanpur
  - precious stones. These are highly specialized and well organized markets of world for e.g. bullion market of Mumbai

- **Capital markets**:
  - Money markets: Broad term include a number of agencies providing a finance to business. These are at large trading centers like Mumbai, London
  - Stock exchange: This is market for investments stocks bonds debentures shares are purchased and sold in different parts of the countries for e.g Calcutta and Madras stock exchange

- **Foreign exchange market**: It is international market and largely concerned with export and import trade of countries.
Determinants of market structure

- Freedom of entry and exit
- Nature of the product – homogenous (identical), differentiated?
- Control over supply/output
- Control over price
- Barriers to entry
- Efficiency
- Competition
Perfect Competition

The concept of perfect competition was first introduced by Adam Smith in his book "Wealth of Nations".

Definition-
"Perfect competition is a market in which there are many firms selling identical products with no firm large enough, relative to the entire market, to be able to influence market price".

Leftwitch

"The perfect competition is characterized by the presence of many firms. They sell identically the same product. The seller is a price taker".

Bllas
Features of Perfect Competition

- A large number of sellers and buyers
- Homogeneous Product
- Perfect Knowledge
- Perfect Mobility
- Single Price
- Price Taker
- Free Entry and Exit
- No govt. Intervention
Perfectly Competitive Markets

- Product Homogeneity
  1. The products of all firms are perfect substitutes
  2. Example
     - Agricultural products
PERFECT COMPETITION

- Potatoes

- Potatoes are sold in markets where all vendors sell homogenous products at homogeneous prices.

- Example- Potato is sold at markets etc. where all vendors sell homogenous products, i.e. potato.
PRICE DETERMINATION: Perfect Competition

- Large No of Small Firms, (i.e. No Economies of Scale), Identical Products, Free Entry to the Industry, Perfect Knowledge of market Opportunities

- **SHORT RUN**
  - price is determined at industry level by supply and demand
  - each firm has a horizontal demand curve at the market price
  - demand and marginal revenue curve are the same
  - MR = P = MC

- **LONG RUN**
  - entry takes place, shifting supply curve to the right and price down
  - super-normal profits are competed away, P= minimum LAC
Short Run Equilibrium of the Price Taker Firm

❖ Three cases

▪ Super Normal Profits

▪ Normal Profits

▪ Losses
Short-run price determination in perfect competition—
Super Normal or Abnormal Profits

Fig. 15.3
Short-run price determination in perfect competition - Normal Profits
Short-run price determination in perfect competition – *Loss*

![Diagram showing price determination in perfect competition](image)
Thank You