Forms of Market

1 Mark Questions

1. What is imperfect oligopoly? (All India 2014)
Ans. Imperfect oligopoly is that market situation in which all firms produce differentiated but close substitutes e.g. Automobile industry.

2. What is perfect oligopoly? (Delhi 2014)
Ans. Perfect oligopoly refers to a market where all the firms are producing homogeneous product.

3. State the main features of a perfectly competitive market. (Compartment 2014)
Ans. Features of perfect competition are as follows:
(a) Very large number of buyers and sellers, (b) Homogeneous product
(c) Perfect knowledge about market. (d) Freedom of entry and exit.

4.What is meant by collusive oligopoly? (Compartment 2014)
Ans. Under oligopoly, when two or more firms decide to cooperate with each other in price and output decision is known as collusive oligopoly.

5.State whether the following statement is true or false. 'A monopolist can sell any quantity at the price, he likes'. Give reason. (hots; Delhi 2013)
Ans. No, the statement is not correct, even though a monopolist has full control over price, however in order to sell greater units it must reduce its price of additional units.

6.Which is a price taker firm? (Delhi 2012; All India 2012)
Ans. A perfectly competitive firm is a price taker firm which takes the price from the market which is determined by the market forces of demand and supply.

7.When is a firm called price taker? (Delhi 2011)
Ans. The firm is called price taker when it has to accept the price that are determined by the market forces of demand and supply and hence cannot decide the price.

8.When is a firm called price maker? (All India 2011)
Ans. The firm is called price maker when the price of the commodity is determined by the firm itself.

9.Which market form has the least number of producers? (All India 2011)
or
Under which form of market, is a firm price maker? (Delhi 2008C)
or

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In which market there is only one firm? (All India 2006)
Ans. Monopoly, where, there is only a single seller in the market.

10.Define oligopoly. (Delhi 2011c, 2010)
Ans. It is a form of market in which there are few large firms that sell both homogeneous as well as differentiated products.

11.Name the characteristic which makes monopolistic competition different from perfect competition. (Delhi 2010)
Ans. In perfect competition, there is homogeneous product and in monopolistic competition, there is a product differentiation.

12.State one feature of oligopoly. (Delhi 2010)
Ans. Large number of buyers and few large sellers is one of the main features of oligopoly.

13.In which market form a firm cannot influence the price of the product? (All India 2010)
or
In which market, firm is a price taker? (All India 2007)
Ans. In perfect competition, firms cannot influence price of the product because of their large numbers.

14.Define monopoly. (All India 2010; Delhi 2009)
Ans. It is the form of the market in which there is single seller of a commodity with complete control over its price.

15.What can you say about the number of buyers and sellers under monopolistic Competition? (All India 2010)
Ans. There are large number of sellers and large number of buyers under monopolistic competition.

16.Give meaning of monopolistic competition. (All India 2010)
Ans. Monopolistic competition refers to that form of market in which there is a large number of sellers, selling differentiated product but closely related goods.

17.What is the effect on price when a perfectly competitive firm tries to sell more? (Delhi 2009C)
Ans. It will remain constant because firms do not have any control over prices, thus it can sell any quantity at a given price.

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18.What is the effect on price when a monopoly firm tries to sell more? (Delhi 2009c)
Ans. If a monopolist tries to sell more, he must lower the price of every additional unit sold.

3 Marks Questions

19.Why is the number of firms small in oligopoly? Explain. (All India 2014)
or
Explain why there are only a few firms in an oligopoly market? (All India 2011; 2010)
Ans. Oligopoly is a form of market in which there are few firms. However, each firm is so big that it controls a significant segment of the market. It is so significant that the price and output policy of one firm has a direct bearing on the price and output of the rival firms in the market. That is why, it is not possible to draw any unique demand curve for an oligopoly firm.

Often the oligopoly firms tend to form trusts and cartels with a view to avoid price competition and earn monopoly profits. Only a small number of firm can form trusts and cartels to earn monopoly profits.

20. Why are the firms said to be interdependent in an oligopoly market? Explain. (Delhi 2014)
or
Explain why firms are mutually interdependent in an oligopoly market? (Delhi 2012,2010C)
Ans. Under oligopoly, there is a high degree of interdependence between the firms. Price and output policy of one firm has a significant impact on the price and output policy of the rival firms in the market as there are only few firms, which are large in size. When one firm lowers its price, the rival firms may also lower the price. And, when one firm raises the price, the rival firms may take its decision accordingly.
Note While taking an action on price or output, a firm must take into account the possible reaction of the rival firms in the market.

21. Under what market condition does Average Revenue always equal Marginal Revenue? Explain. (Delhi 2014)
Ans Under perfect competition Average Revenue i.e. price is equal to Marginal Revenue as under this form of market there are very large number of sellers who sells homogeneous product hence cannot influence the market price through its decisions as a result industry is price maker and each individual firms are price takers, which ramins constant.

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22. Explain the implications of large number of buyers and sellers in a perfectly competitive market. (Foreign 2014; Delhi 2012; All India 2011)
or
Explain 'large number of buyers and sellers' features of perfectly competitive market. (Delhi 2013)

Ans. A perfectly competitive market is dominated by a very large number of buyers and sellers of a commodity which means that there is no such buyer or seller in the market whose purchase or sale is so large as to impact the total sale or purchase in the market. Each buyer/seller has only a fractional share in the market demand/market supply. Since, price is determined by the market forces of demand and supply, no individual buyer or seller has any control on it. Each buyer/seller has to accept the price as it is in the market.

23. Explain 'freedom of entry and exit to firms in industry' feature of monopolistic competition. (Delhi 2013)
Ans. Firms are free to enter the industry or leave the industry, however new firms have no absolute freedom of entry into industry. Products of some firms may be legally patented. New firms cannot produce those products, e.g. no rival firm can produce or sell a patented item like Woodland shoes. In the same way a firm may leave the industry if it incur losses.

24. Why can a firm not earn abnormal profits under perfect competition in the long-run? Explain. (Hots All India 2013)
or
Explain the implications of freedom of entry and exit to the firms under perfect competition. (Delhi 2011, 2010)
Ans. There is freedom of entry and exit under perfect competition. In situations of extra-normal profits, new firms will be induced tb join the industry. This increases market supply and lowers market price to finally wipe out extra-normal profits.
In situations of extra-normal losses, marginal firms will quit the industry, lowering market supply and raising market price to finally wipe out extra-normal losses. So, firm cannot earn abnormal profit under perfect competition in the long-run.

25. Why is the demand curve of a firm under monopolistic competition more elastic than under monopoly? Explain. (Hots; All India 2013)
Ans. Demand curve under monopolistic competition are similar to monopoly. But the main difference between monopoly and monopolistic competition is that under monopolistic competition, demand curve is more elastic because the seller has many rivals producing close substitutes in the market, hence consumer can easily substitute away from the good which has became expensive.

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26. Explain the implications of perfect knowledge about market under perfect competition. (Delhi 2011)

Ans. Perfect knowledge means that both buyers and sellers are fully informed about the market conditions like price etc. Therefore, no firm is in a position to charge a different price and no buyer will pay a higher price. As a result uniform price prevails in the market. In case of perfect competition, buyers and sellers have perfect knowledge of the market. In other forms of the market, there is imperfect knowledge of the market.

27. Explain the implications of the feature homogeneous products in perfectly competitive market. (All India 2011; Delhi 2010)

Ans. Homogeneous products means the products which are identical in quality, shape, size and colour. So, no producer is in a position to charge a different price of the product it produces. A uniform price prevails in the market. In a perfectly competitive market, commodity must be homogeneous (identical). Thus, the buyers find no reason to prefer the product of one seller to the product of another.

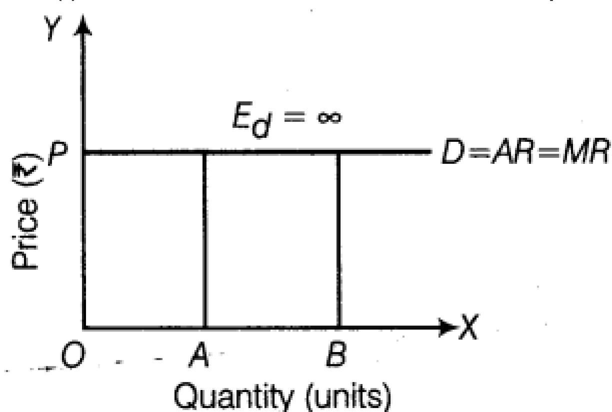
28. Why is a firm under perfect competition a price taker and under monopolist competition a price maker? Explain briefly. (Delhi 2011c, 2009)

Ans. Under perfect competition, there are very large number of firms producing homogeneous commodity. An individual firm in such a market cannot change price of the commodity. Price is determined by the market forces of demand and supply. All the firms in the industry sell their output at the given price. It is therefore said that a firm under perfect competition is a price taker.

A monopolist is a price maker because he is a single seller of the product in the market. So, there is no competition. There are no close substitutes of the monopoly product. So, there is no fear that buyers would shift from one product to the other to any significant extent. There are number of legal, technical or natural barriers to the entry of new firms. So, that there is no increase in the market supply.

29. Giving reasons, distinguish between the behaviour of demand curves of firms under perfect competition and monopolistic competition. (All India 2010)

Ans. (i) Demand curve of the firm under perfect competition:



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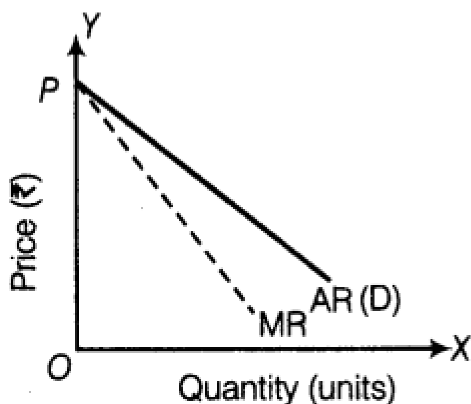
Demand curve is perfectly elastic. It means that a firho can sell any amount Of the commodity at the prevailing price. Even a fractional rise in price would wipe out entire demand for the firm's product. Firm's demand curve is indicated by a horizontal straight line parallel to X-axis.

This shows that the firm has to accept the price as determined by the market forces of supply and demand; it can sell whatever amount it wishes to sell at this price.

(ii) Demand curve of the firm under monopolistic competition:



Demand curve is more elastic. Under monopolistic competition, the firm faces a negatively slope demand curve. It means that a large quantity of the commodity can be sold by decreasing its price. But demand curve here is more elastic than the demand curve faced by monopoly firm. It is because of availability of close substitutes in the market.

30. Explain the features of perfect competition. (All India 2009)
or
State three features of perfect competition. (Delhi 2008, 2008C, 2006)
Ans. Features of perfect competition are as follows: (Any three)

(i) Very large number of buyers and sellers There are very large number of buyers and sellers are present in the market as a result of which size of each economic agent is so small as compared to the market that they cannot influence the price through their individual actions.

(ii) Homogeneous products These are the products which are identical in quality, shape, size and colour. So, no producer is in a position to charge a different price of the product it produces. A uniform price prevails in the market. In a perfectly competitive market, commodity must be homogeneous (identical). Thus, the buyers find no reason to prefer the product of one seller to the product of another.

(iii) Freedom of entry and exit Firms under this form of market are free to leave the industry if they are suffering from loss, on the other hand profits could attracts new firms.
(iv) Perfect knowledge Each economic agent have a perfect knowledge about the

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market conditions say the prevailing prices in the market etc.

31.State three features of monopoly. (Delhi 2008)
Ans. Three features of monopoly are as follows:

(i) Single seller and large number of buyers Under monopoly, there is a single producer of a commodity. He may be alone or there may be a group of partners or joint stock company or a state. However, there is a large number of buyers of the product.

(ii) Restrictions on the entry of new firms Under monopoly, there are some restrictions on the entry of new firms into the monopoly industry. Generally, there are patent rights or exclusive control over a technique or on raw material.

(iii) No close substitutes A monopoly firm produces a commodity that has no close substitutes. For example, There is no close substitute of Microsoft, they are the leaders of operating system.

32.State three features of monopolistic competition. (Delhi 2008; All India 2006)

Ans. Features of monopolistic competition are as follows: '

(i) Large number of buyers and sellers Under monopolistic competition, there are large number of buyers and sellers. Each firm has a limited share of the market.

(ii) Product differentiation It is a distinct feature of^monopolistic competition. A product is often differentiated by way of trade marks and brand names quality, quantity, size etc. The differentiated products are close substitutes of each other, like Colgate and Close up toothpaste. Because of product differentiation, each firm has a partial control over the price however cannot determine the price.

(iii) Selling cost Each firm has to incur selling costs (expenditure on advertisement, etc) to promote its sales. This is because there is a large number of close substitutes in the market. (1 x3 =3)

33.Explain differentiated products characteristic of monopolistic competition.(Delhi 2006C)

Ans. It is a distinct feature of monopolistic competition, it means a product is differentiated by trade mark, brand name, size, shape, etc. It is usually done to attract the buyers, e.g. toothpastes of two different companies i.e. Colgate and Pepsodent. This gives the monopolistic producers some power to influence the prices. Also they produces an excess capacity, as each brand has certain fixed consumer as well as excess capacity help firm to meet any unforseen circumstances.

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4 Marks Questions

34.Explain two points of distinction between monopoly and monopolistic competition. (All India 2009)

Ans. Difference between monopoly and monopolistic competition

Basis	Monopoly	Monopolistic competition
Number of sellers and buyers	Under this market, there is a single seller of a commodity and large number of buyers.	There is a large number of buyers and sellers. Also, the size of each firm is small. Each firm has a limited share of the market.
Nature of the product	It sells a product which has no close substitutes.	It sells products which are differentiated hence close substitutes of each other.
Free and exit	Restriction on entry and exit of firms	Free dom of entry and exit of firms
Selling cost	Very low selling cost	Very high selling cost

6 Marks Questions

35. Distinguish between collusive and non-collusive oligopoly. Explain how the oligopoly firms are interdependent in taking price and output decisions? (Delhi 2011)

Ans. (1) Difference between collusive and non-collusive oligopoly

Basis	Collusive oligopoly	Non-collusive oligopoly
Meaning	Under this form, firms might decide to collude together and not to compete with each other.	In this form of oligopoly, firms do not collude but compete with each other.
Firms behave	Under collusive oligopoly, the firms would behave as a single monopoly	Under non-collusive oligopoly, the firms behave Independently.
Aim	This aims at maximising their collective profits rather than their individual profit	This aims at maximising its own profits and decides how much quantify to be produced assuming that the other firms would not change their quantity supplied.

(ii)Firms are interdependent in an oligopoly market

Under oligopoly, there is a high degree of interdependence between the firms. Price and output policy of one firm has a significant impact on the price and output policy of the rival firms in the market as there are only few firms, which are large in size. When one firm lowers its price, the rival firms may also lower the price. And, when one firm raises the price, the rival firms may take its decision accordingly.

Note: While taking an action on price or output, a firm must take into account the possible reaction of the rival firms in the market.

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36. Distinguish between collusive and non-collusive oligopoly. Explain the following features of oligopoly.
(i)Few firms
(ii) Non-price competition (All India 2011)

Ans. Difference between collusive and non-collusive oligopoly

Basis	Collusive oligopoly	Non-collusive oligopoly
Meaning	Under this form, firms might decide to collude together and not to compete with each other.	In this form of oligopoly, firms do not collude but compete with each other.
Firms behave	Under collusive oligopoly, the firms would behave as a single monopoly	Under non-collusive oligopoly, the firms behave Independently.
Aim	This aims at maximising their collective profits rather than their individual profit	This aims at maximising its own profits and decides how much quantify to be produced assuming that the other firms would not change their quantity supplied.

Features of oligopoly are: (2)

(i) **Few firms** In oligopoly form of market, there are few firms dominating the market for a commodity and each seller has a significant share in the market;

(ii) Non-price competition Under oligopoly, firms tend to avoid price competition because of the fear of price war.
For example, In India both Coke and Pepsi drinks sell at the same price. However, in order to enhance its share of the market, each firm tries to resort to non-price competition.

37.Explain the implications of the following features of a perfectly competitive market.
(i) Perfect knowledge about the market of the good.
(ii) Perfect knowledge about the inputs used in the production. (All India 2010)

Ans. (i) Perfect knowledge about the market
Perfect knowledge means that both buyers and sellers are fully informed about the market conditions like price etc. Therefore, no firm is in a position to charge a different price and no buyer will pay a higher price. As a result uniform price prevails in the market. In case of perfect competition, buyers and sellers have perfect knowledge of the market. In other forms of the market, there is imperfect knowledge of the market.

(ii) Perfect knowledge about the inputs used in the production Due to homogeneous product or identical in every respect like quality, size, etc. The products are perfect substitutes of one another. As a result, both buyers and sellers have perfect knowledge about the inputs used in the production.

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38. Explain the implications of the following features of oligopoly market.
(i) Few firms
(ii) Barriers to the entry of firms. (All India 2010)

Ans. (1) Few firms

Oligopoly is a form of market in which there are few firms. However, each firm is so big that it controls a significant segment of the market. It is so significant that the price and output policy of one firm has a direct bearing on the price and output of the rival firms in the market. That is why, it is not possible to draw any unique demand curve for an oligopoly firm.

Often the oligopoly firms tend to form trusts and cartels with a view to avoid price competition and earn monopoly profits. Only a small number of firm can form trusts and cartels to earn monopoly profits.

(ii) Barriers to the entry of firms There are various barriers or restrictions to the entry of new firms. These barriers are almost similar to those under monopoly. Entry of the new firms is extremely difficult, if, not impossible. These barriers can be natural like requirements of huge capital or operating at minimum average cost of artificial barriers like patent rights which prevents entry of new firms in the industry.

39.Explain the implications of the following features of perfectly competitive market.
(i) Large number of buyers
(ii)Large number of sellers (Delhi 2010c)

Ans, (i) Large number of buyers In perfectly competitive market, large number of buyers are present, due to which each buyer buying only a small fraction of the total market transactions. Buyers take the price of the commodities as a given parameter, acts accordingly and will adjust their demand according to the set price of the market.

(ii) Large number of sellers In perfectly competitive market, large number of sellers exist in the market due to which they cannot influence the sale of the market. They will take the market price as a given parameter acts accordingly. At the set price of the market they will sell their products and gains the title ‘price taker’.

40. Explain the implications of the following features of monopolistic competition (i) Differentiated products (ii) Freedom of entry and exit to firms (All India 2009)

Ans. (i) Product differentiation It is a distinct feature of monopolistic competition. A product is often differentiated by way of trade marks and brand names size, quality, quantity etc. The differentiated products are close substitutes of each other, like Colgate

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and Close up toothpaste. Because of product differentiation, each firm can decide its price policy independently. So, that each firm has a partial control over price of its product. This is done to attract buyers from the rival firms in the market. Also because of this firms produce an excess capacity (quantity), as their product is different and hence they have some consumers who always consumes their products only.

(ii) Freedom of entry and exit to firms Firm under this form of market are free to leave the industry if they are suffering from loss, on the other hand profits could attracts new firms.

41. Explain the implications of the following features of perfect competition.
(i) Homogeneous products
(ii) Freedom of entry and exit to firms (Delhi 2009C)

Ans. (i) Homogeneous products It means the products which are identical in quality, shape, size and colour. So, no producer is in a position to charge a different price of the product it produces. A uniform price prevails in the market. In a perfectly competitive market, commodity must be homogeneous (identical). Thus, the buyers find no reason to prefer the product of one seller to the product of another.

(ii) Freedom of entry and exit to firms A firm can enter or leave the industry any time. Because of free entry and exit, firms in the long-run can earn only normal profits (TR =TC or AR = MR and P = MC). In case extra normal profits are earned, new firms will join the industry, market supply will increase. Market price will fall, extra normal profits will be wiped out. In case of extra normal losses, some of the existing firms will leave the industry. Market supply will decrease, market price will increase. Extra normal losses will be wiped out.

42. Explain the implications of the following
(i) Differentiated products under monopolistic competition.
(ii) Large number of sellers under perfect competition. (All India 2008)

Ans. (i) **Product differentiation** It is a distinct feature of monopolistic competition. A product is often differentiated by way of trademarks and brand names size, quality, quantity etc. The differentiated products are close substitutes of each other, like Colgate and Close up toothpaste. Because of product differentiation, each firm can decide its price policy independently. So, that each firm has a partial control over price of its product. This is done to attract buyers from the rival firms in the market. Also because of this firms produce an excess capacity (quantity), as their product is different and hence they have some consumers who always consumes their products only.

(ii) Large number of sellers There are very large number of buyers and seller are present in the market as a result of which size of each economic agent is so small as

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compared to the market that they cannot influence the price through their individual actions.

43. Distinguish between perfect competition and monopolistic competition.

Ans. Difference between perfect competition and monopolistic competition

Basis	**Perfect Competition**	**Monopolistic Competition**
Number of buyers and sellers	There are very large number of buyers and sellers	There are large number of buyers and sellers
Products	Homogeneous products	Differentiated products
Slopes of firm's DD curve	Horizontal straight line (AR = MR)	Slopes downward with high elasticity (AR > MR)
Mobility	Perfect mobility	Imperfect mobility
Selling costs	Not required	Very significant
Degree of price control	No control over price	Partial control over price

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