Forms of Market

EXERCISE [PAGES 51 - 52]

Exercise | Q 1.1 | Page 51

Choose the correct option:

In economic sense, market includes following activities

a)The place where goods are sold and purchased.

b)An arrangement through which buyers and sellers come in close contact with each other directly or indirectly.

c)A shop where goods are sold.

d)All of the above.

1. a and b
2. b and c
3. a, b and c
4. **only b**

Solution: only b

Exercise | Q 1.2 | Page 51

Choose the correct option:

Classification of markets on the basis of place

a) Local market, National market, International market

b) Very short period market, Local market, National market.

c) Short period market, National market, International market.

d) Local market, National market, Short period market.

1. a, b and c
2. b, c and d
3. **only a**
4. a and d

Solution: only a

Exercise | Q 1.3 | Page 52

Choose the correct option:

Homogeneous product is a feature of this market.

a) Monopoly

b) Monopolistic competition

c) Perfect competition

d) Oligopoly

1. c and d
2. a, b and c
3. a, c and d
4. **only c**

Solution: only c

Exercise | Q 1.4 | Page 52

Choose the correct option:

Under Perfect competition, sellers are

a) Price makers

b) Price takers

c) Price discriminators

d) None of these

1. a, b and c
2. **only b**
3. only c
4. a and c

Solution: only b

Exercise | Q 2.1 | Page 52

Give economic term:

The market where there are few sellers.

Solution: Oligopoly

Exercise | Q 2.2 | Page 52

Give economic term:

The point where demand and supply curve intersect.

Solution: Equilibrium point/price

Exercise | Q 2.3 | Page 52

Give economic term:

The cost incurred by the firm to promote sales.

Solution: Selling cost

Exercise | Q 2.4 | Page 52

Give economic term:

Number of firms producing identical product.

Solution: Homogeneous product

Exercise | Q 2.5 | Page 52

Give economic term:

Charging different prices to different consumers for the same product or services.

Solution: Price discrimination

Exercise | Q 3.1 | Page 52

Complete the Correlation:

Perfect competition : Free entry and exit :: _______ : Barriers to entry.

Solution: Perfect competition : Free entry and exit :: **Monopoly** : Barriers to entry.

Exercise | Q 3.2 | Page 52

Complete the Correlation:

Price taker : _______ :: Price maker :: Monopoly.

Solution: Price taker : **Perfect competition** :: Price maker :: Monopoly.

Exercise | Q 3.3 | Page 52

Complete the Correlation:

Single price : Perfect competition :: Discriminated prices : _______.

Solution: Single price : Perfect competition :: Discriminated prices : **Monopoly**.

Exercise | Q 4.1 | Page 52

Find the odd word out:

Selling cost: Free gifts, Advertisement hoardings, Window displays, Patents.

Solution: Patents

Exercise | Q 4.2 | Page 52

Find the odd word out:

Market structure on the basis of competition: Monopoly, Oligopoly, Very Short Period market, Perfect competition.

Solution: Very Short Period market

Exercise | Q 4.3 | Page 52

Find the odd word out:

Features of monopoly: Price maker, Entrybarriers, Many sellers, Lack of substitutes.

Solution: Many sellers

Exercise | Q 4.4 | Page 52

Find the odd word out:

Legal monopoly: Patent, OPEC, Copyright, Trademark.

Solution: OPEC

Exercise | Q 5.1 | Page 52

Answer the following:

Explain the features of Oligopoly.

Solution: Meaning:

The term oligopoly is derived from the Greek words ‘Oligo’ which means few and ‘poly’ which means sellers. It is that market where there are a few firms (sellers) in the market producing either a homogeneous product or a differentiated product. For example, mobile service providers, cement companies, etc.

Features of oligopoly:

1. **Few firms or sellers:**
   Under an oligopoly market, there are few firms or sellers. These few firms dominate the market and enjoy considerable control over the price of a product.
2. **Interdependence:**
   The seller has to be cautious with respect to any action taken by the competing firms. Since there are few sellers in the market, if any firm makes a change in the price, all other firms in the industry also try to follow the same to remain in the competition.
3. **Advertising:**
   Advertising is a powerful instrument in the hands of oligopolists. A firm under oligopoly can start an aggressive and attractive advertising campaign with the intention of capturing a large part of the market.
4. **Entry barriers:**
   The firm can easily exit from the industry whenever it wants. But has to face certain entry barriers such as Government license, patents etc.
5. **Lack of uniformity:**
   There is a lack of uniformity among the firms in terms of their size. Some firms may be small while others may be of a bigger size.

6. **Uncertainty:** There is a considerable element of uncertainty in this type of market due to different behavior patterns. Rivals may join hands and co-operate or may try to fight each other.

Exercise | Q 5.2 | Page 52

Write short answer for the following question :

Types of monopoly

Explain the types of Monopoly.

Solution:

Meaning: -

The term "MONOPOLY" is derived from two Greek words "Mono" which means "Single" and "Poly" which means "Sellers". Thus Monopoly refers to "**market structure in which a single seller controls the entire market**". And therefore the seller is a price maker and not the price taker.

The following are some of the types of monopolies:

- **Pure, perfect or Absolute Monopoly**: -
  A pure or perfect monopoly means that the firm controls the supply of a product for which there is not even a remote (close) substitute. Such a monopoly is very rare.
- **Natural Monopoly**: -
  The monopoly power is acquired due to natural advantages such as good location, control over scarce resources, involvement of huge investment, etc.
- **Legal monopoly**: -
  It arises due to legal protection given to the producer in the form of patents, trade marks, copyrights, etc. The law prevents the potential competitors form producing identical products.
- **Technological monopoly**: -
  Big firms enjoy technological monopoly due to their superior technology and economies of scale. Other firms do not have the access to such technology cannot produce the quality goods produced by big firms.
- **Simple monopoly:** -
  In a simple monopoly the firm has monopoly power over a product or service, but it charges a uniform price to all the buyers.
- **Discriminating monopoly**: -
  In a discriminating monopoly, the firm charges different prices to different buyers in the same market or in different markets fir the same product.
- **Private monopoly**: -
  When an individual or a private firm controls the production it is regarded as private monopoly.
- **State or Social Monopoly: -**
  When the government owns and controls the production of a good or services it is called state or social monopoly.

Exercise | Q 6.1 | Page 52

Observe the table and answer the question:

Price of banana (per dozen) in ₹	Demand (in dozen)	Supply (in dozen)	Relation between DD and SS
10	500	100	DD > SS
20	400	______	DD > SS
30	______	300	DD = SS
40	200	______	DD < SS
50	_______	500	DD < SS

Fill in the blanks in the above schedule.

Solution:

Price of banana (per dozen) in ₹	Demand (in dozen)	Supply (in dozen)	Relation between DD and SS
10	500	100	DD > SS
20	400	**200**	DD > SS
30	**300**	300	DD = SS
40	200	**400**	DD < SS
50	**100**	500	DD < SS

Exercise | Q 6.2 | Page 52

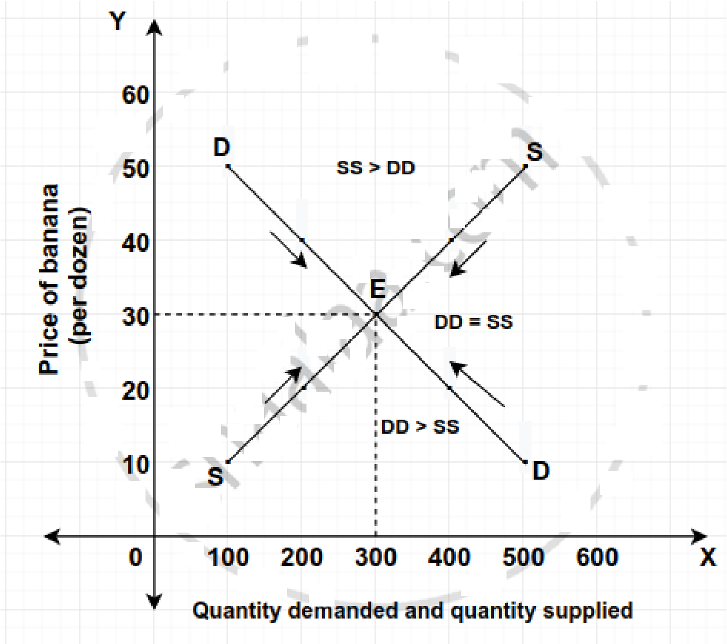
Observe the table and answer the question:

Price of banana (per dozen) in ₹	Demand (in dozen)	Supply (in dozen)	Relation between DD and SS
10	500	100	DD > SS
20	400	______	DD > SS
30	______	300	DD = SS
40	200	______	DD < SS
50	_______	500	DD < SS

Derive the equilibrium price from the above schedule with the help of a suitable diagram.

Solution:

Price of banana (per dozen) in ₹	Demand (in dozen)	Supply (in dozen)	Relation between DD and SS
10	500	100	DD > SS
20	400	**200**	DD > SS
30	**300**	300	DD = SS
40	200	**400**	DD < SS
50	**100**	500	DD < SS



Exercise | Q 7.1 | Page 52

Answer in detail

What is Monopolistic Competition? Explain in detail the features of Monopolistic Competition.

Solution:

Meaning:

Monopolistic competition is very realistic in nature. In this market there are some features of perfect competition and some features of monopoly acting together. Prof. E. H. Chamberlin coined this concept in his book "Theory of Monopolistic Competition" which was published in 1933.

Defination:

According to Chamberlin, “Monopolistic competition refers to competition among a large number of sellers producing close but not perfect substitutes.”

Following are the main features of monopolistic competition:

1. **Fairly large number of sellers:**
   In monopolistic competition, the number of sellers is large but comparatively, it is less than that of perfect competition. Due to this reason, sellers’ behaviour is like a monopoly.
2. **Fairly large number of buyers:**
   In this market, there are fairly large numbers of buyers. Consequently, no single buyer can influence the price of the product by changing his individual demand.
3. **Product differentiation:**
   Product differentiation is the main feature of monopolistic competition. In this market, there are many firms producing a particular product, but the product of each firm is in some way differentiated from the product of every other firm in the market. This is known as product differentiation. Product differentiation may take the form of brand names, trademarks, a peculiarity of package or container, shape, quality, cover, design, colour etc. This means that the product of a firm may find close substitutes and its cross elasticity of demand is very high. For example, mobile handsets, cold drinks etc.
4. **Free entry and exit:**
   Under monopolistic competition there is freedom of entry and exit, that is new firms are free to enter the market if there is profit. Similarly, they can leave the market, if they find it difficult to survive.
5. **Selling Cost:**
   Selling cost is peculiar to monopolistic competition only. It refers to the cost incurred by the firm to create more demand for its product and thus increase the volume of sales. It includes expenditure on advertisements, radio and television broadcasts, hoardings, exhibitions, window display, free gifts, free samples etc.
6. **Close substitutes:**
   In monopolistic competition, goods have close substitutes to each other. For example, different brands of soaps, toothpastes etc.
7. **Concept of group:**
   Under monopolistic competition, Chamberlin introduced the concept of ‘Group’ in place of industry. Industry means the number of firms producing identical products. A ‘Group’ means a number of firms producing differentiated products which are closely related. For example, a group of firms producing medicines, automobiles etc.

Exercise | Q 7.2 | Page 52

Answer the following question in detail.

What is meant by Perfect competitions? State its features.

SOLUTION 1

Perfect competition is defined as a market structure that consists of a large number of buyers and sellers such that no individual seller can influence the existing market price of the product. All the sellers in a perfect competition market produce homogenous products; that is, the output of all sellers is similar to each other and each firm sells its output at a uniform price.

The following are the features of perfect competition:

i. **Large number of buyers and sellers**- Under perfect competition, there are a large number of buyers and sellers. The number of sellers is so large that no individual firm has control over the market price of the commodity.

ii. **Free entry and exit of firms**- There is no restriction on the entry and exit of firms. This free entry and exit of the firms ensure that no firm earns either abnormal losses or abnormal profits in the long run.

iii. **Homogeneous product**- The product of each and every firm in the perfectly competitive market is a perfect substitute to others' products in terms of quantity, quality, colour, size, features, etc.

iv. **Perfect knowledge**- In a perfectly competitive market, the buyers are aware of the prevailing market price of the product at different places and the sellers are aware of the prices at which the buyers are willing to buy the product.

v. **Perfect mobility of factors of productions**- In a perfect competition the factors of production are perfectly mobile. Such mobility implies that there is optimum utilisation of the factors of production.

vi. **Absence of transport cost**- In a perfect competition it is assumed that there is no transport cost. This further ensures that there is uniform price in the market.

SOLUTION 2

Perfect competition is defined as a market structure that consists of a large number of buyers and sellers such that no individual seller can influence the existing market price of the product. All the sellers in a perfect competition market produce homogenous products; that is, the output of all sellers is similar to each other and each firm sells its output at a uniform price.

The following are the features of perfect competition:

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vi. **Absence of transport cost**- In a perfect competition it is assumed that there is no transport cost. This further ensures that there is a uniform price in the market.

vii. **Single price:** A single uniform price prevails under perfect competition which is determined by the interaction of demand and supply.