JAGATPUR P.G. COLLEGE, VARANASI

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Generally 'Market' refers to a particular place where Goods are bought and sold. However in Economics, the term "Market" has wider Meaning. In Economics the term Market has no reference to a particular Place. The Buyers and sellers need not assemble anywhere. They May be living in distant places. They can do Business with the help of Telephone, Post as E mail. According to J.L. Edwards- "A Market is that Mechanism by which Buyers and Sellers are brought together. It is not necessarily a fixed place.

On the basis of competition there are two types of market :

1. Perfect competition
2. Imperfect competition

1. Perfect Competition :

Perfect competition refers to a market situation in which there are large number of Buyers and Sellers of homogeneous products. The Price of the product is determined by Industry with the forces of Demand and supply. In Economics, the Term competition refers to the competitive market structure. The Competitiveness of market structure refers to the extent to which individual. Firm has the power to influence the Market Price. Some of the important definition of perfect competition are given below:

According to Mrs. John Robinson, "Perfect Competition prevails when the Demand far the output of each produces is perfectly elastic."

Main Feature of Competitive Market are as under :

i) Large Number of Buyers and Sellers

ii) Homogeneous product

iii) Freedom of Entry or Exit

iv) Perfect knowledge

v) Perfect mobility

vi) No Transport Cost.

Price Determination under Perfect Competition

Price Determination is the most Important Function because every economic Activity is measured in the Term of Money (Price). Pricing of Commodity is not an easy task. Price determination has been difficult due to different views expressed by the economists.

Time Element in Price theory

Marshall gave importance to time element in the determination of price. Time element is of great significance in the price theory, Since changes in the supply depend on technical factors which take time to change. Therefore the adjustment between demand & supply does not take place immediately. Marshall divided time in to two category :

1. Short Period

2. Long Period

I. Short Period

Short period price relates to a few months during which the size of the firm and its plant can not be altered. The stock of a commodity can be increased during the short period by More intensive use of the existing plant. This can be achieved by Starting two or three shift and also by employing more labour, Raw material etc. However the Scale of production can not be changed by increasing the fixed plant and organisation. Short period price is determined by short run equilibrium between demand and supply.

II. Long Period

As we have seen, long period means the period in which the supply can be adjusted according to the demand. If the supply requires to be increased, there is sufficient time and money in increase it. According to Marshall, "Normal Price is the Price which tends to prevail in a market when full time is given to the forces of demand and supply to adjust themselves."

Short Period and Long Period Equilibrium

The Firm's equilibrium about the profit maximising output can be studied with reference to two time period:

1. Short run equilibrium of the firm
2. Long Run equilibrium of the firm

1. Short Run Equilibrium : Can be divided in the three category:

i. Normal profit

ii. Super Normal Profit

iii. Normal Loss

Long Run Equilibrium

The long run is a period of time which is sufficiently long to allow the firm to make changes in all factors of production. In the long run all factors are variable. Economics long run is that time period in which their is no fixed factor. Every factor can be changed.

In the Long Run Firm's equilibrium will necessarily at the level of normal profit.

Imperfect Competition or Monopolistic Competition

In the preceding topic we were concerned with the analysis of perfect competition. Monopolistic Competition is that sub-category of imperfect competition which is nearest to pure competition. It is a market structure in which there are many sellers of a commodity. But the product of such seller Differs from that of the other sellers.

Price Determination under monopolistic competition or Profit Maximisation

Determination of equilibrium of a Monopolistic competitive firm follows the same general rule of profit maximisation that we have study in perfect competition.

To Repeat the equilibrium condition, it is determined at the level of output where a firms'

1. MR = MC

Related questions :

1. What is Market and Explain the kinds of Market on the basis of competition.
2. What is perfect competition & Imperfect Competitions.
3. What is monopolistic competition.
4. Distinguish between Short period and long period.

References :

1. V.C. Sinha- Business Economics

2. J.P. Mishra – Business Economics

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