

## UNIT-2

### Price Setting and Market Mechanism

The Market:- Market is a place which is geographically located for facilitating the interaction b/w buyers and sellers for deciding various quantities of commodities at different prices.

\* Components of Market:-

- 1- Consumer
- 2- The marketer, producer or seller.
- 3- Commodity.
- 4- Price.
- 5- Terms and conditions.

\* Price output decision:- During the price war every competing firm is considered about the profit maximization. Where a larger profit may bring the more competition ahead and the low profit

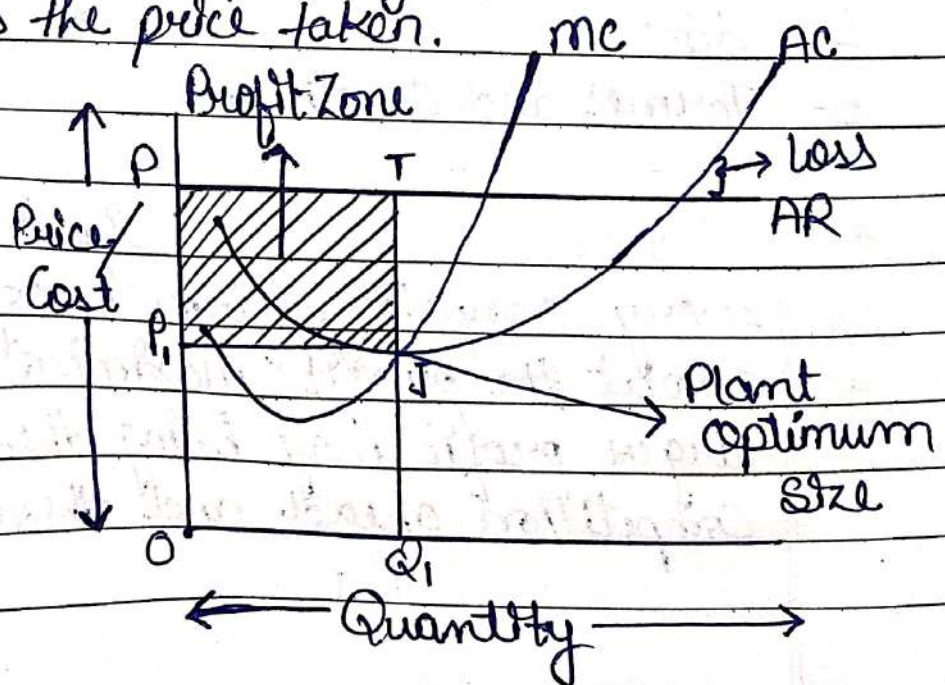
On the other hand side may create the panic for the firm's survival. So, the optimize price output decision which leads to a efficient and 0 wastage production process and on this point company will have the larger production at minimum cost.

★ Market Structure :-

1- Perfect Competition :- Perfect market is a situation where a large no. of sellers and buyers are present to buy or exchange homogeneous products at uniform prices.

★ Features / characteristics :-

- 1- large no. of buyers and sellers.
- 2- Homogeneous sellers.
- 3- Uniform price.
- 4- Free entry and exit.
- 5- Industry is the price giver.
- 6- firm is the price taker.



In this market structure if the firm maintains its cost structure below then the market price then the firm earns a profit based upon the fairness for the price line. More the difference b/w price and cost shall bring the larger profit. Different-2 firm under the perfect competition can earn different-2 profit because of their productivity shall bring the lesser chances of profit.

★ Oligopoly :- It refers to a competition b/w few. Oligopoly is a market situation where a few firms compete with each other under the indeterminate demand.

★ Features of oligopoly :-

- 1- Interdependence :- One company or firm is dependent over the another firm for deciding its price.
- 2- Indeterminate demand curve (Kinked curve) :- No firm is possible to predict its current correct demand.
- 3- Role of selling cost

★ Conditions for Oligopoly:-

1- Group behaviour (Cartel formation):-

It is a very common approach that the people are suppose to associate to defeat their common interest. Hence, in the oligopoly two or more firms may come together to defeat the larger firm. This group behaviour is known as the cartel formation.

The conditions for making cartel:-

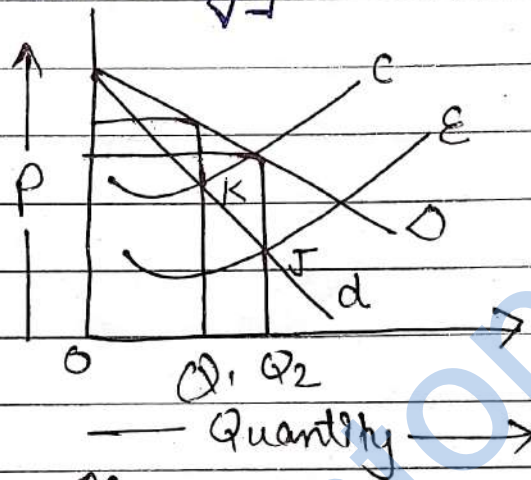
- 1- closely related products.
- 2- Common Market.
- 3- Common cost expenditure.
- 4- Same technology and skills.
- 5- Same Market strategy and Planning.

The group behaviour shall provide an opportunity for the member firms for lowering down their reserped prices in the order to attract the costumers of the larger firm.

2- Leadership under oligopoly:-

Sometimes oligopoly executes the market structure as in the perfect combination because the leader firm decides a price and rest of the firms follow that prices.

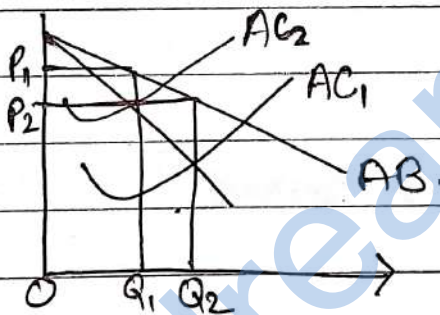
- Conditions for leadership -
- 1- Larger Market Share
  - 2- The firm which has lowest cost.
  - 3- The firm with the heavy investment.
  - 4- latent technology.



$D$  = Is the demand  
of the firms

$J$  is the price of  
the capital.

$K$  is Price of  
other firm.



★ Monopoly :- Monopoly refers to a market structure in which a firm controls the supply of the product in Market.

- Conditions of Monopoly :-

following are the conditions of Monopoly -

- 1- Control over natural factors or raw material
- 2- Legal factors.
- 3- Patent.
- 4- Cost factor.
- 5- Market factor and small market size.

6- Heavy Investment.

7- Monopoly due to the government in the public interest and Welfare.

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