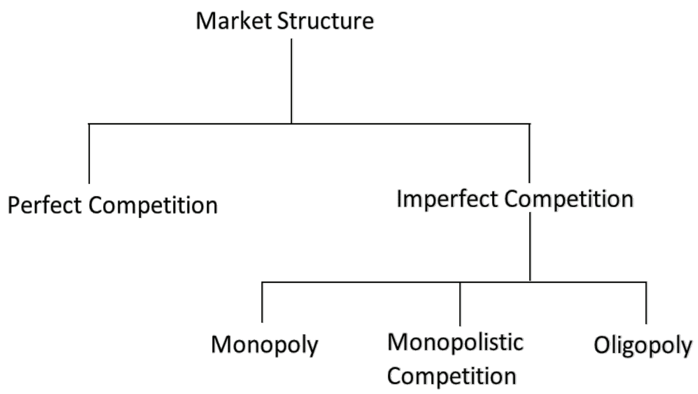
Revision Notes

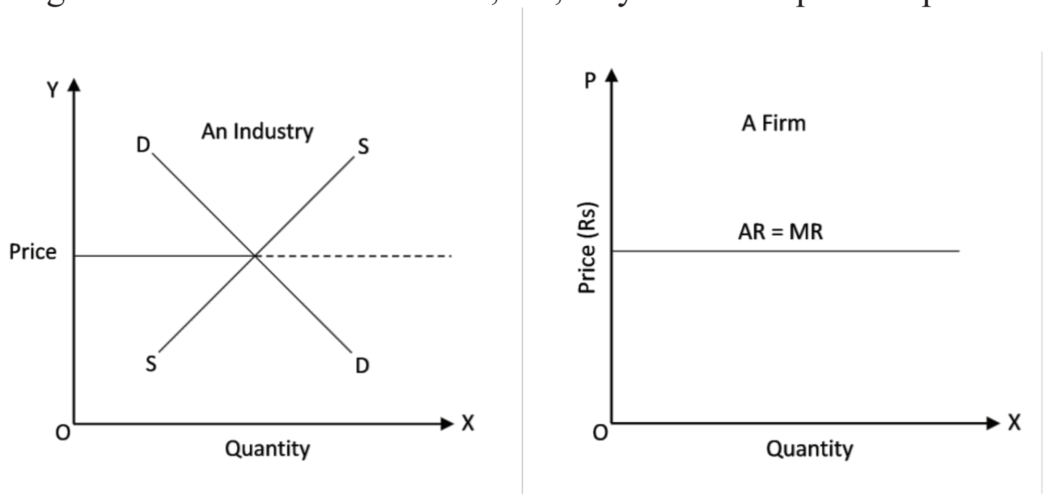
Class 12 Micro Economics

Chapter 6 – Non-Competitive Markets

Market: It is a mechanism or arrangement that brings buyers and sellers of a commodity or service together and allows them to complete the act of selling and buying the commodity or service at mutually agreed prices.



Perfect competition: It is a market structure in which a large number of buyers and sellers compete for the same products at the same price, with firms free to enter and exit and no government control.
Since price remains constant in the presence of perfect competition, the average and marginal revenue curves coincide, i.e., they become equal and parallel to the x-axis.



Price is determined by the industry under perfect competition based on market forces of demand and supply. No single company can influence the product's price. A company can only make decisions about output. As a result, the industry sets the price, and the firm accepts the price.

Features of perfect competition:

a) It comprises an enormous number of purchasers and vendors.
b) The product is homogeneous.
c) Market entry and exit are unrestricted.
d) Extensive knowledge.
e) Unrivaled mobility.
f) A demand curve that is perfectly elastic.
g) There are no transportation costs.

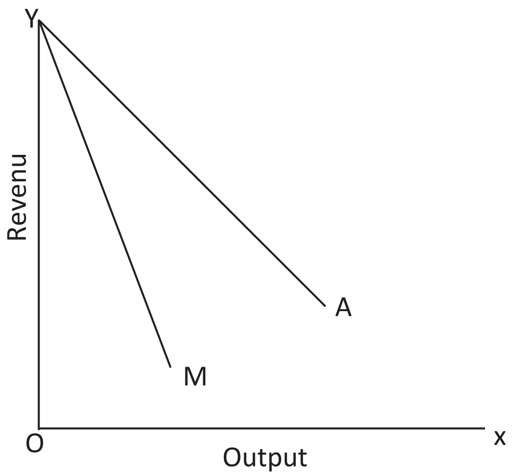
Monopoly Market: A monopoly market is one in which there is a single seller and a large number of buyers. There are no close substitutes for the products.

Some features of the monopoly market:

a. A single seller with a large number of potential buyers.
b. Barriers to new firms entering the market.
c. There are no close substitutes available.
d. Complete price control.
e. Discrimination based on price.
f. It is a price maker.
g. A demand curve with a downward slant that is less elastic.

Average Revenue (AR) or Marginalised Revenue (MR) Curve in Monopoly Market:

The income or revenue received by the firm per unit of an item sold is known as the Average Revenue (AR). The AR (Demand) Curve is less elastic than that of monopolistic competition, sloping downward from left to right. It means that in order to increase demand, the price must be reduced. Given the demand for his product, the monopolist can increase sales by lowering the price; however, the marginal revenue declines at a faster rate than the average revenue declines. A monopolist sets either the price or the output. He can't make both decisions at the same time.



Monopolistic Competition: It is a market in which a large number of buyers and sellers are present. The sellers offer a variety of products, not all of which are identical. The products are nearly identical to one another.

Some features of monopolistic competition:

a. A large number of potential buyers and sellers

b. Differentiation of products based on colour, flavour, packaging, trademark, and size.

c. The cost of advertising and sales promotion.

d. Unrestricted entry and exit of businesses.

e. Price control, but only in parts.

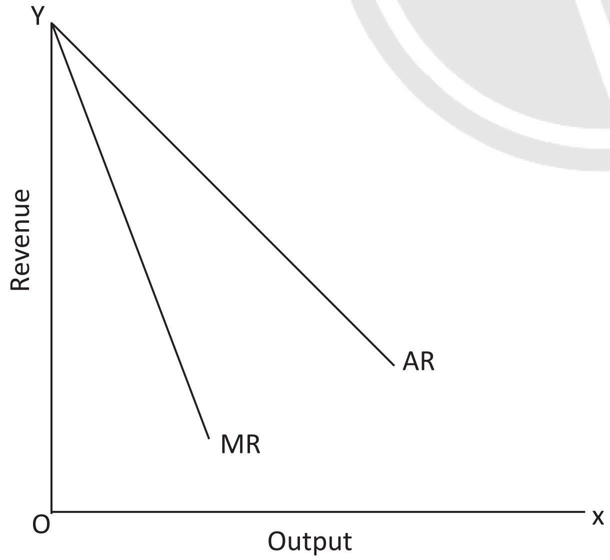
f. A lack of complete knowledge.

g. A demand curve that is elastic and slopes downward.

h. Production factors and products are not perfectly mobile.

Average Revenue (AR) or Marginalised Revenue (MR) Curve in Monopolist Market:

The AR (Demand) Curve is a downward sloping curve that is more elastic and flatter than the monopoly curve. It means that a monopolistic competitive firm's demand will change more in response to a price change than a monopoly firm's demand. The AR and MR curves are both downward sloping because the only way to sell more units is to lower the price. MR is located beneath AR.



Oligopoly: It is a market structure in which only a few firms can prevent the others from exerting significant influence.

Important characteristics of oligopoly market:

a. There are only a few sellers who control all or most of the industry's sales.

b. Each firm creates a product that is either homogeneous or differentiated.
c. The demand curve in an oligopoly cannot be determined.
d. In terms of price determination, all firms are interdependent.

Oligopoly can be categorised into two categories on the basis of production:
a. Collusive oligopoly is a type of oligopoly in which all firms agree to avoid competition and set prices and output quantities through cooperative behaviour.
b. Non-collusive oligopoly is a type of oligopoly in which all firms set their prices and output quantities in response to rival firms' actions and reactions.

Oligopoly can be categorised into two categories on the basis of differentiation:
a. When firms deal with homogeneous products, they form a type of oligopoly known as a perfect oligopoly.
b. When there is product differentiation, an imperfect oligopoly occurs. It deals with heterogeneous products.

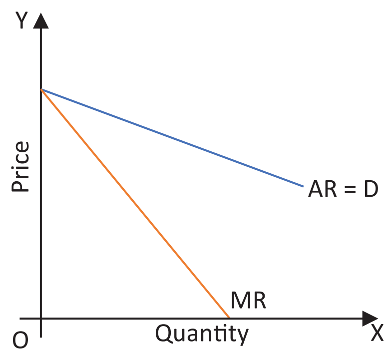
Price maker: It is an establishment, for example, a firm, that has an imposing business model or monopoly that permits it to impact the value it charges in light of the fact that the goods it produces do not have a perfect substitute. Within the monopolistic competition, a price maker produces goods that differ in some way from the products of its competitors.

The state of Demand Curve under various Market Structures:
- Monopoly is a market category in which there is only one seller and thus no distinction between a firm and an industry. Because the firm is an industry in and of itself, the demand curve of the individual firm and the demand curve of the industry will be the same. Furthermore, because there are no close substitutes when there is a monopoly, the demand curve is relatively steeper, indicating relatively inelastic demand.
- Monopolistic competition occurs when a group of monopolists competes to produce a differentiated product. Each company's product is slightly different from the others. Because substitutes exist, each firm's product demand curve is downward sloping and relatively elastic. The industry demand curve has little meaning in monopolistic competition because there are many sellers with differentiated products.

In an oligopoly market, there are only a few sellers who produce differentiated or homogeneous goods. The actions of competitors have an impact on the demand for a company's product. In an oligopolistic market, a firm's demand curve has a kink.

Marginal Revenue Value in an Elastic Demand Curve:

When the demand curve is elastic, the value of marginal revenue will be positive. The relationship between the value of MR and the demand curve is depicted graphically in the diagram below. The marginal and average revenue curves are sloping downward from left to right, as shown in the diagram.



Price Elasticity and Marginal Revenue:

Price elasticity and marginal revenue have a direct relationship. The more elastic a good's demand is, the more it is affected by supply changes. Marginal revenue and price are equal in a competitive market. As a result, price elasticity and marginal revenue have a direct relationship in a competitive market. Marginal revenue is less than price in a natural monopoly. Because low prices are a primary driver of monopoly, this is the case. As a result, price elasticity has a direct relationship with marginal revenue in a monopoly.

Price and cost, both of which are a function of demand, drive marginal revenue. Higher revenues are generated by higher prices and lower costs. Higher volume generates more revenue and lowers costs due to economies of scale. The effect is cyclical, with the cost-cutting benefit offset by the revenue loss from lower prices.

Changes in price will have no effect on demand if the good is price inelastic. Because price has no effect on demand, raising the price will increase revenue. Furthermore, the cost savings from increased volume do not need to be passed on to the customer.

Marginal Revenue is expressed as:

$MR = P[1-(1/Ep)]$

Where MR = Marginal Revenue,

P = Product's market price

Ep = The price elasticity of demand for the product.