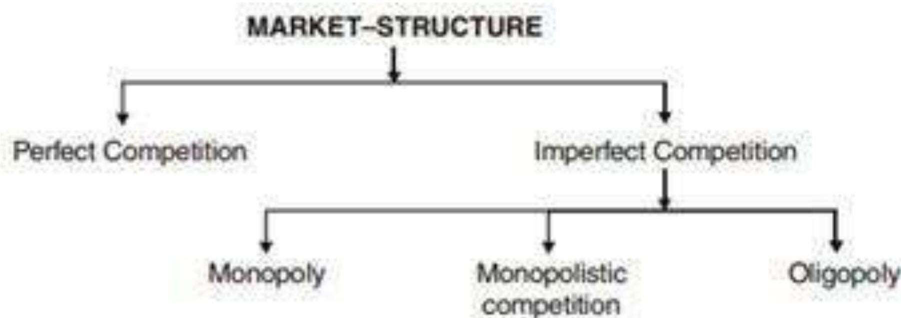
CBSE Class –12 Economics

Micro Economics

Chapter 6 – Non Competitive Markets

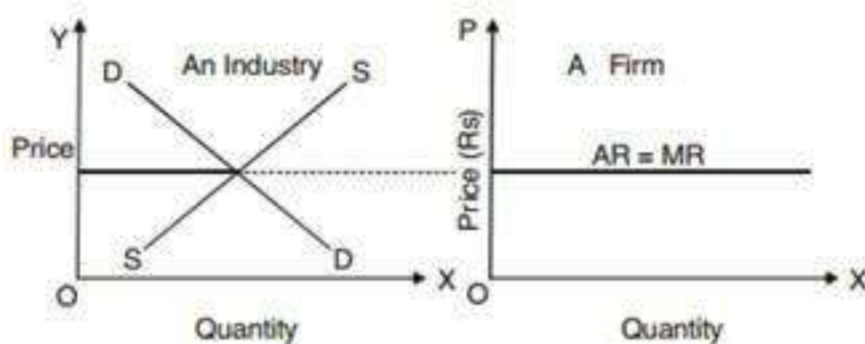
Revision Notes

Market is a mechanism or arrangement through which the buyers and sellers of a commodity or service come into contact with one another and complete the act of sale and purchase of the commodity or service on mutually agreed prices.



Perfect competition is a market structure where there are large number of buyers and sellers selling identical products at uniform price with free entry and exit of firms and absence of govt. control.

Under perfect competition price remains constant therefore, average and marginal revenue curves coincide each other i.e., they become equal and parallel to x-axis.



Under perfect competition price is determined by the industry on the basis of market forces of demand and supply. No individual firm can influence the price of the product. A firm can takes the decision regarding the output only. So industry is price maker and firm is price taker.

Feature of perfect competition:

(a) Very large no. of buyers and sellers.
(b) Homogeneous product.
(c) Free entry and exit of firms in the market.
(d) Perfect knowledge.
(e) Perfect Mobility.
(f) Perfectly elastic demand curve.
(g) No transportation cost.

MONOPOLY MARKET

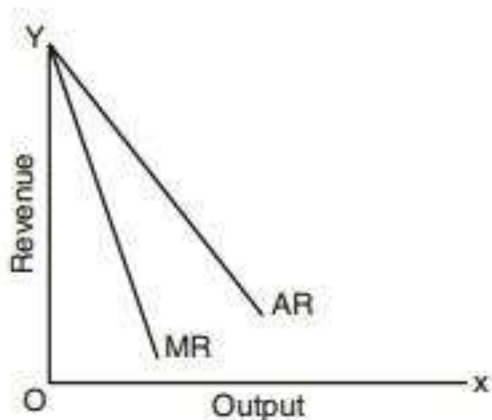
Monopoly is that type of market where there is a single seller and large number of buyers. There is absence of close substitutes to the products.

Features of Monopoly market:-

(a) Single seller and large number of buyers.
(b) Restrictions on the entry of new firms.
(c) Absence of close substitutes.
(d) Full control over price
(e) Price discrimination.
(f) Price maker
(g) Downward sloping less elastic demand curve.

AR or MR Curve in Monopoly market:

AR (Demand) Curve slopes downward from left to right and less elastic than that of monopolistic competition. It means that to increase demand, he has to reduce the price. Given the demand for his product, the monopolist can increase his sales with lower price, the marginal revenue also falls but the rate of fall in marginal revenue is greater than that in average revenue.



Q	AR (=P) Rs	TR Rs	MR Rs
1	20	20	20
2	18	36	16
3	16	48	12
4	14	56	8
5	12	60	4
6	10	60	0
7	8	56	–4

A monopolist either decides price or output. He cannot decides both at a time.

MONOPOLISTIC COMPETITION

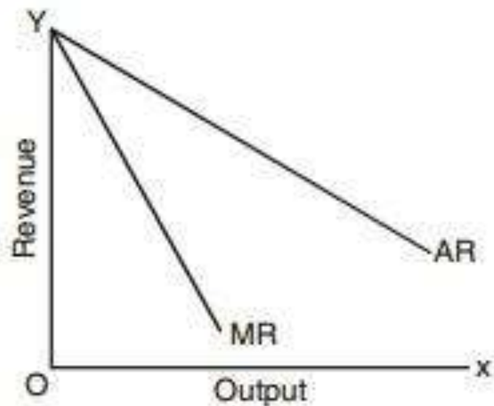
It is that type of market in which there are large number of buyers and sellers. The Sellers sell differentiated product but not identical. The products are close substitutes of each other.

Features of Monopolistic Competition:-

(a) Large no. of buyers and sellers
(b) Product Differentiation on basis of colour, taste, packing, trademark, and size.
(c) Selling Cost on advertisement and sales promotion.
(d) Free entry or exit of firms.
(e) Lack of perfect knowledge.
(f) Partial control over price.
(g) Imperfect mobility: Factors of production and products are not perfectly mobile.
(h) Elastic and downward sloping demand curve.

AR or MR in Monopolist Market:

AR (Demand) Curve is left to right downward sloping curve and more elastic / flatter than that of monopoly. It means that in response to change in price, the change in demand will be relatively more for a monopolistic competitive firm than a monopoly firm.



AR and MR curves are both downward sloping because more units can be sold only by lowering the price. MR lies below AR.

OLIGOPOLY

Oligopoly is the form of market in which there are few sellers or few large firms, intensely competing against one another and recognising interdependence in their decision-making.

Features of Oligopoly:-

(a) Few Sellers
(b) All the firms produce homogeneous or differentiated product.
(c) Under oligopoly demand curve cannot be determined. It has a kinked demand curve.
(d) All the firms are interdependent in respect of price determination.
(e) Price rigidity.

On the basis of production, Oligopoly can be categorised in two categories:

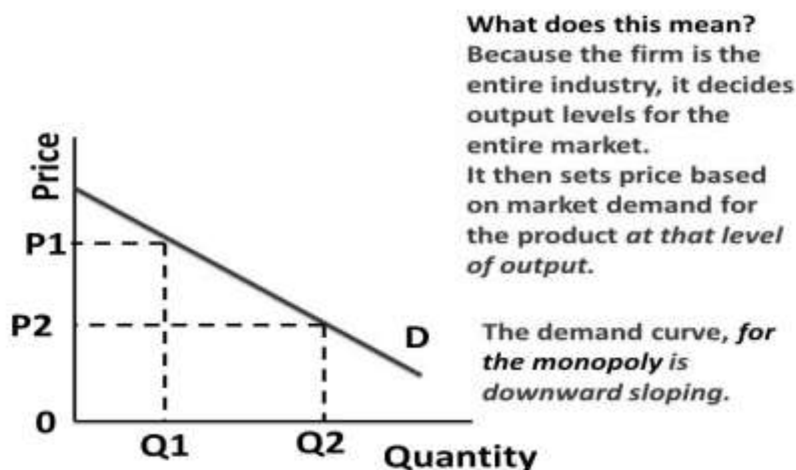
(i) Collusive oligopoly is that form of oligopoly in which all the firms decide to avoid

competition and determine the price and quantity of output on the basis of cooperative behaviour.
(ii) Non-collusive oligopoly is that form of oligopoly in which all the firms determine the price and quantity of output according to the action and reaction of the rival firms.

On the basis of product differentiation, Oligopoly, can be categorised in two categories:

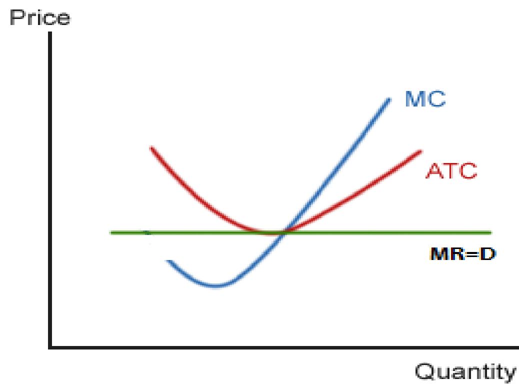
(i) Perfect Oligopoly: The Oligopoly is perfect or pure when the firms deal in the homogeneous products.
(ii) Imperfect Oligopoly: Whereas the Oligopoly is said to be imperfect, when the firms deal in heterogeneous products, i.e. products that are close but are not perfect substitutes.

Price Maker: - In economics, a price maker is a monopolistic company that can dictate the prices of its goods because there are no substitutes for it. In trading, a price maker is a stockholder who controls a large number of shares and is able to affect the stock's price.

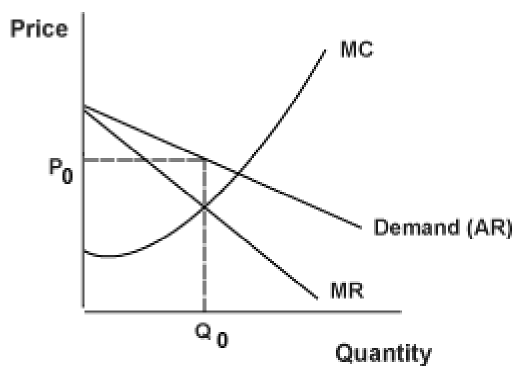


Shape of Demand Curve under Different Market Structures:-
Monopoly is that market category in which there is only a single seller and therefore there is no difference between a firm and an industry. The firm is itself an industry and therefore the demand curve of the individual firm as well as the industry demand curve

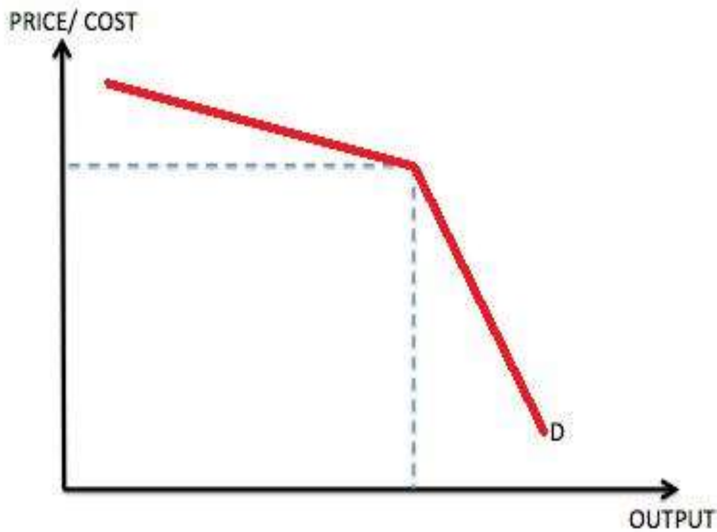
will be the same. Moreover as there are no close substitutes under monopoly the demand curve is relatively steeper showing relatively inelastic demand under monopoly.



Under Monopolistic Competition there is competition among a group of monopolists producing differentiated product. The product of each firm is slightly different from that of other. There are also substitutes and therefore the demand curve of each firm's product is downward sloping and is relatively elastic in nature. In monopolistic competition there are many sellers with differentiated product and hence industry demand curve hardly has any meaning.

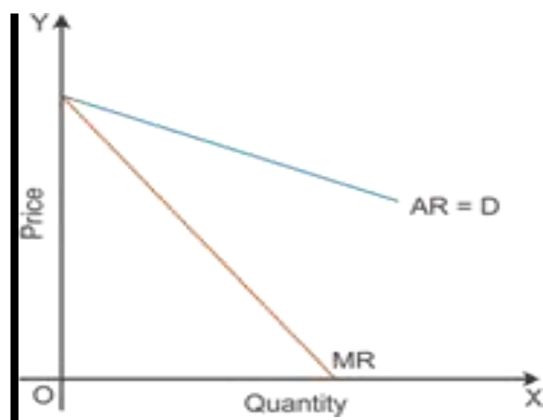


In case of Oligopoly market there are few sellers producing either differentiated or homogenous products. The demand for a firm's product is influenced by the actions of its rivals. The demand curve of a firm under oligopoly has a kink.



Value of Marginal Revenue in Elastic Demand Curve:-

The value of marginal revenue will be positive when the demand curve is elastic. The following is the graphical representation between the relationship between the value of MR and the demand curve.



The figure indicates that the marginal revenue and average revenue curves are downward sloping from left to right.

Price Elasticity and Marginal Revenue:-

There's a direct relationship between price elasticity and marginal revenue. The more elastic a good is, the more its demand is affected by changes in supply. In a competitive

market, marginal revenue is the same as price. Therefore, in a competitive market, price elasticity has a direct relationship with marginal revenue. In a natural monopoly, marginal revenue is less than price. This is because low price is a primary driver of monopoly. Therefore, in a monopoly, price elasticity also has a direct relationship with marginal revenue.

Marginal revenue is driven by price and cost, which are both a function of demand. Higher prices and lower costs generate higher revenues. Higher volume generates higher revenue through economies of scale and lowers costs. The effect is cyclical, and the benefit of saving costs is countered with the loss of revenue from lower prices.

If the good is price inelastic, changes in price will not affect demand. Since demand is unaffected by price, an increase in price will increase revenue. Additionally, the cost saves from volume increases do not need to be passed along to the customer.

Marginal Revenue can be expressed as:-

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

Where MR = marginal revenue,

P = market price of the product, and

Ep = the price elasticity of demand for the product

The above formula is very useful when the demand function has a known constant price elasticity. Business managers must estimate the value of MR in order to arrive at decisions about price and output.