CH-4 Price determination in different markets

UNIT-1 Meaning & Types of Market

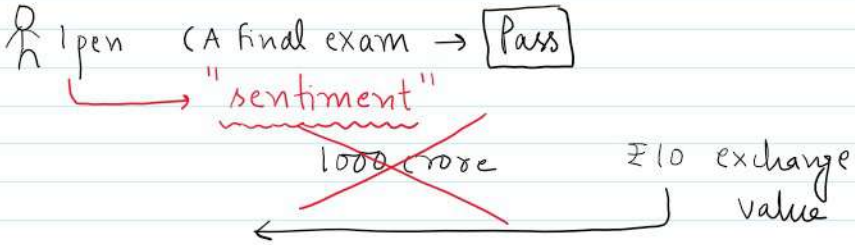
→ Market :- It is a place where goods* are purchased and sold.

* Goods
  - Free good eg Air
  - Economic good : Not free, Scarce, command price

→ In market, only exchange value is significant (Not sentimental value)

Price connotes money value

i.e purchasing power of an article is expressed in money terms



→ Elements of Market :-

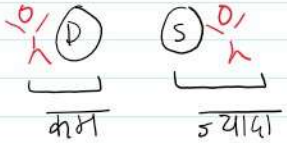
a) Buyers and Sellers

b) Product or Service

c) Bargaining for Price

d) Knowledge about market conditions

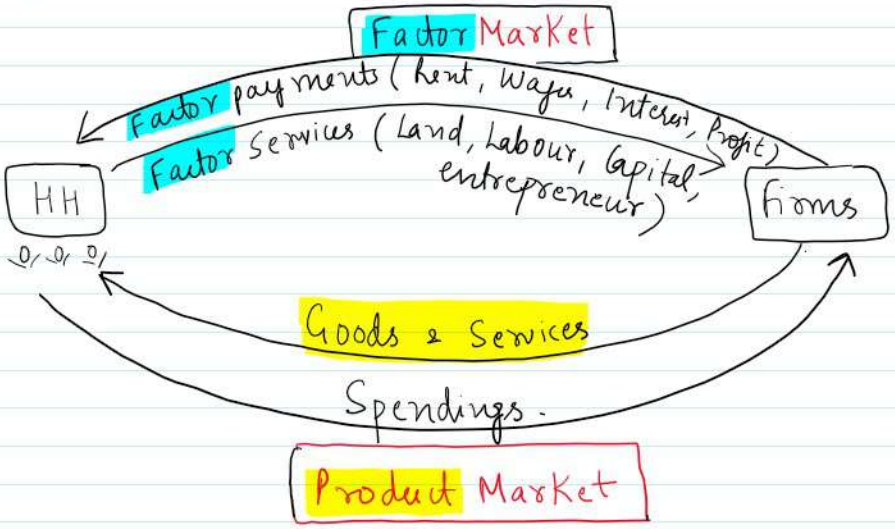
e) One price for a product



c) One price for a product at a given time

→ Classification of Markets :-

a) Factor Market
b) Product Market



Types of Market :-

On the basis of AREA

- Local - for perishable goods (Bread)
- Regional - for semi-durable goods (cloth)
- National - for durable goods (car)
- International - for Precious goods (diamond)

On the basis of TIME - Alfred Marshall

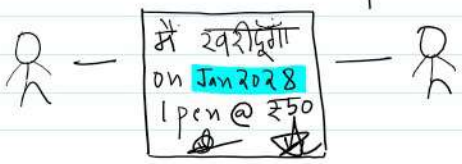
- Very short - Supply cannot change
- Short - Supply can slightly change
- Long - Supply can change
- Very Long (Secular) - Supply can easily change

On the basis of Transaction

- Spot - goods are physically transferred on

On the basis of Transaction

- Spot - goods are physically transferred on the spot
- Future (Forward) - Contracts of future date at specified price



On the basis of Regulation

- Regulated - eg Stock market (SEBI)
- Unregulated - No regulation (eg Free Market)

On the basis of Volume

- Wholesale - Bulk quantities
- Retail - for ultimate consumer (Small quantities)

On the basis of Competition

- Perfect competition
- Imperfect competition
  - → Monopoly
  - → Monopolistic
  - → Oligopoly

Basic Concepts

(1) Total Revenue (TR)

= Price p.u × Quantity sold

= P × Q

(2) Average Revenue (AR)

$= P \times Q$

② **Average Revenue** (AR)

$= \frac{TR}{Q}$

$= \frac{P \times Q}{Q}$

$=$ Price p.u

AR curve is also known as **Demand curve**

③ **Marginal Revenue** (MR)

$= \frac{\Delta TR}{\Delta Q}$

MR is the **SLOPE** of TR

eg ①

P	Q	TR	AR	MR
₹10	5	₹50	₹10	–
₹9	6	₹54	₹9	4
₹8	10	₹80	₹8	6·5
₹7	14	₹98	₹7	4·5
₹6	20	₹120	₹6	3·6

$MR = \frac{\Delta TR}{\Delta Q} = \frac{80 - 54}{10 - 6} = \frac{26}{4}$

eg ②

Output	MR	TR
3	4	22
5	9	x

Sol:-

$MR = \frac{\Delta TR}{\Delta \text{Output}}$

$9 = \frac{x - 22}{5 - 3}$

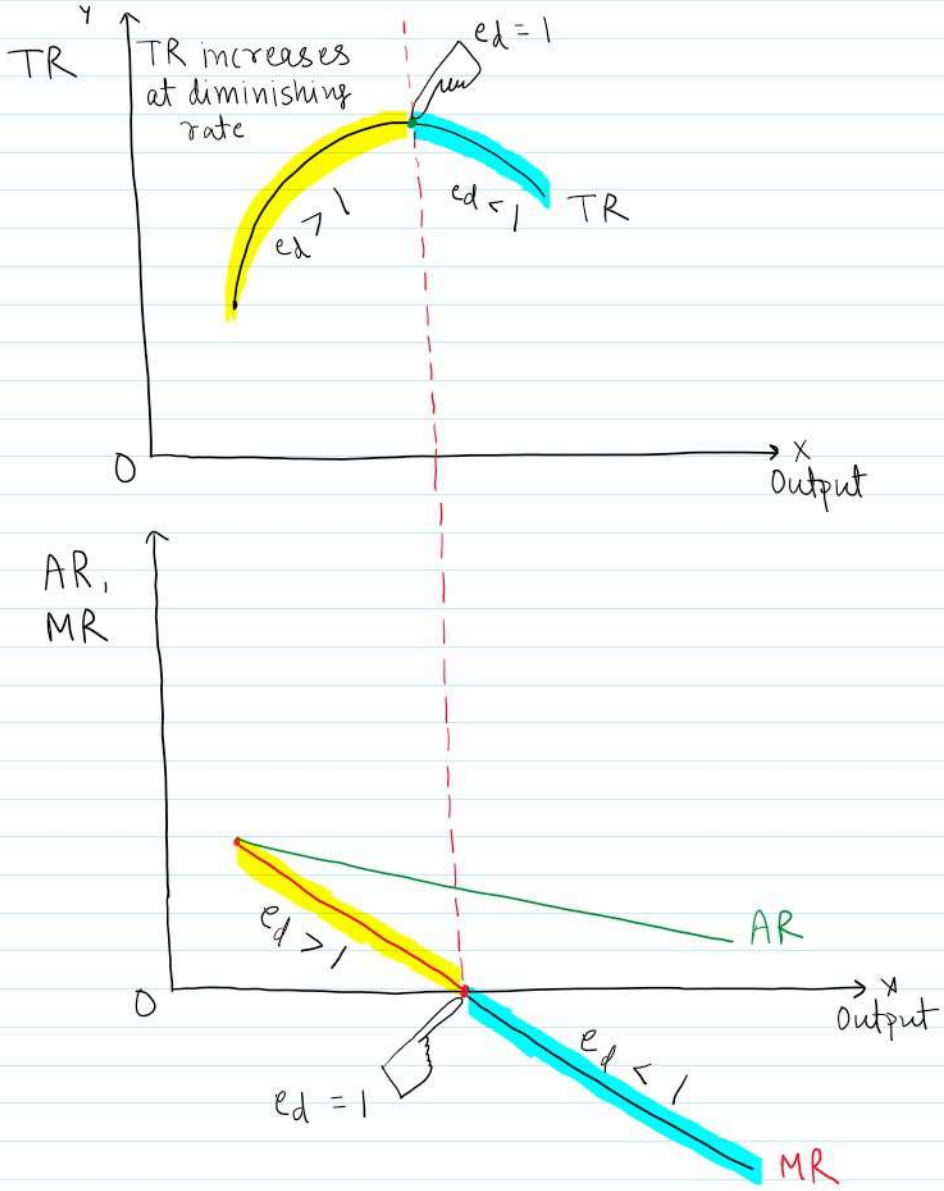
$9 = \frac{x - 22}{2}$

$$1 - \frac{x - 22}{2}$$

$$18 = x - 22$$

$$\therefore \quad x = 40$$

* V.V.V.Imp. **General Relationship between TR, AR, MR and E_d** (100%)



① When MR > 0 (i.e +ve) ; then TR increases at diminishing rate

② When MR = 0 ; then TR is MAXIMUM

③ When MR < 0 (ie (-)ve) ; then TR falls.

(R) *

$$MR = AR \times (E_d - 1)$$

$$MR = AR \times \frac{(E_d - 1)}{E_d}$$

E_d is Elasticity of demand

(*)

$E_d > 1$	MR (+)ve	TR increases at diminishing rate
$E_d = 1$	MR = 0	TR is MAX
$E_d < 1$	MR (-)ve	TR falls

* Behavioral Principle

① For a firm to produce

$$TR \geq TVC$$

{i.e TR should not be less than TVC} (R)

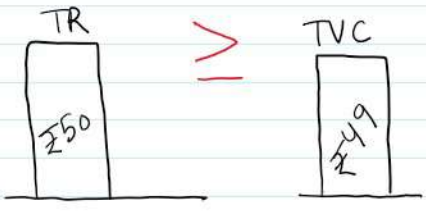
② Profit Maximisation i.e. Producer's Equilibrium

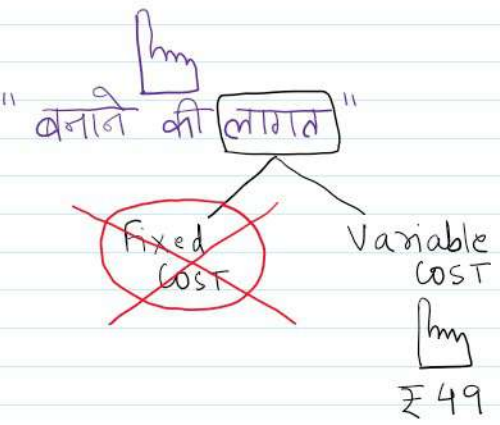
$$MR = MC$$

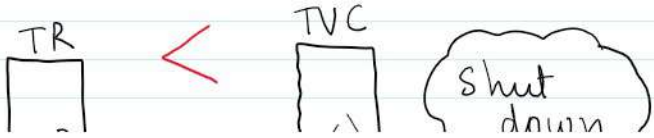
TR = Total Revenue = ₹ 50

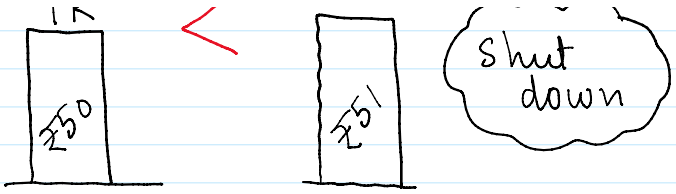
5 units sold

Price = ₹ 10 p.u









₹49

MR = Marginal cost

1 additional unit → Revenue = 1 additional unit → variable cost