

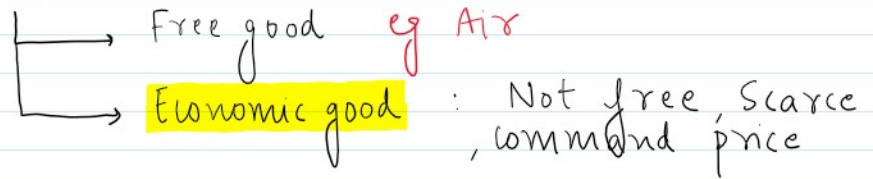
# CH-4 Price determination in different markets

## UNIT-1

### Meaning & Types of Market

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

\* Goods

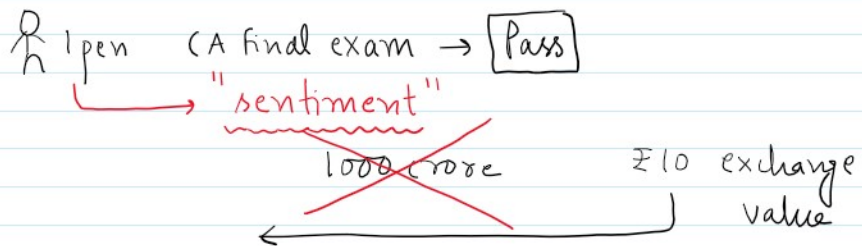


→ In market, only exchange value is significant

(Not sentimental value)

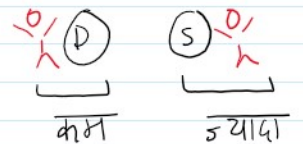
Price connotes money value

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

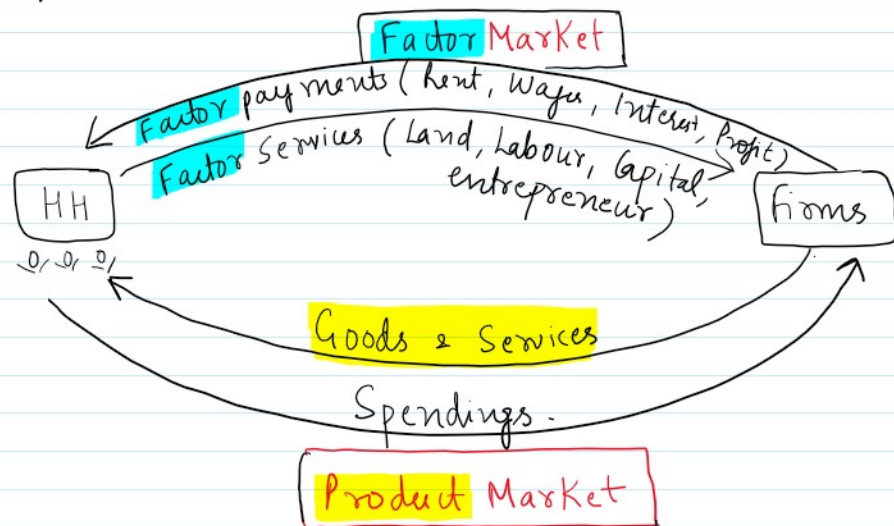
d) Knowledge about market conditions

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**

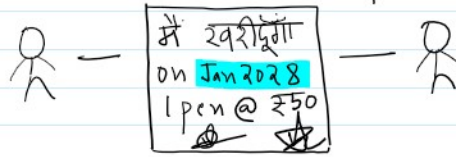
- Very short - Alfred Marshall
- Short - Supply **cannot** change
- Long - Supply can **slightly** change
- Very long (Secular) - Supply can **change**
- Very long (Secular) - Supply can **easily** change

**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

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## Basic Concepts

① Total Revenue (TR)

$$= \text{Price p.u} \times \text{Quantity sold}$$

$$= P \times Q$$

② Average Revenue (AR)

$$= P \times Q$$

② **Average Revenue** (AR)

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

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

$$= \text{Price p.u}$$

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:-

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

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

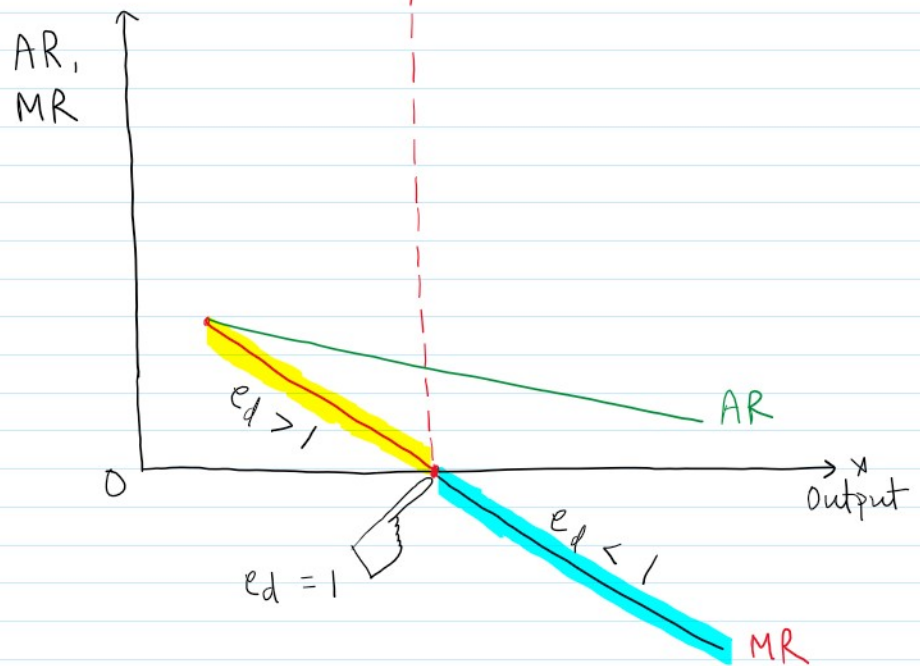
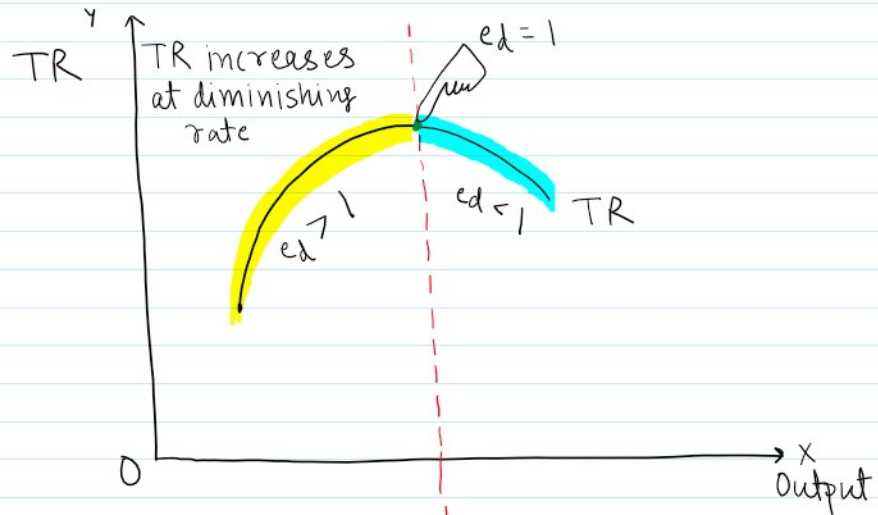
$$9 = \frac{x - 22}{2}$$

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

$$18 = x - 22$$

$$\therefore x = 40$$

\* V.V.V.I.M.P. 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  $MR < 0$  (i.e. -ve) ; then TR falls.

Ⓡ \* 
$$MR = AR \times (E_d - 1)$$

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

$E_d$  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 } <sup>(R)</sup>

② Profit Maximisation i.e. Producer's Equilibrium

$$MR = MC$$

TR = Total Revenue  
= ₹ 50

5 units sold

Price = ₹ 10  
p.u

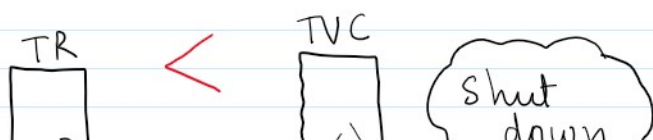


"बनाने की लागत"

~~Fixed Cost~~

Variable Cost

₹ 49





┌  
£49

┌ MR = Marginal cost

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