6 Market

Introduction

Generally, the place where there is purchase and sale of commodities and services is called a market. The concept regarding market in economics more extensive than the prevailing idea.

6.1 Meaning of a Market

The system through which the buyers and sellers get in contact with each other directly or indirectly for the sale or purchase of goods or services is called market.

According to professor Samuel, "Market is the functional system where the buyers and sellers contact each other to decide the price and the quantity of goods or services."

6.2 Characteristics of a Market

Market has its own peculiar characteristics as follows :

6.2.1 Numerous Sellers and Buyers : It is mandatory to have buyers and sellers of goods and services in a market. The purposeful exchange made through them for goods or service is the process of purchase and sales. This process allows the sellers to gain maximum profit and the buyers to gain satisfaction from the product.

6.2.2 Goods and Services : It is necessary that there are goods and services available according to the demand and necessity. To gain maximum profit, the producers and sellers provide the products and services in various types and forms and try to attract the buyers towards them. While for their satisfaction the buyers tries to buy an ideal set of products and services.

6.2.3 Contact : The buyers and sellers come in contact via various means. The contact made can be either direct or indirect. Presently, the buyers and sellers come in contact via the following means :

(1) **Tele-Shopping :** Where the buyers themselves order the services or products through a telephone.

(2) **Online Shopping :** Where the buyers order the services or products which they select on websites via internet. Thus, by the means of tele-shopping and online shopping, the buyers and sellers can come indirectly in contact.

6.2.4 Price : At a given time the price of the product or service must be decided in the market. The price is decided according to the demand and the factors related to its supply. The price of products and services depends on the demand made by the buyers and the ability of the producers and sellers to supply them.

6.2.5 Information about the Market Situation : It is important that the buyers and sellers have information about the current market situation. So that decisions related to production, distribution and purchase can be taken during the times of recession, inflation, natural and man-made calamities.

6.3 Classification of Market

The market is classified in many ways. Market based on location, time, form of product, quantity of product, control and competition are the various types. Here we will study market based on location, market based on quantity and market based on competition.

6.3.1 Markets Based on Location : Are classified according to the geographical location where they are situated.

6.3.1.1 Local Market : The market where the products and services are produced and sold at the same place are called local markets. They are limited to the respective city or village. For example, Market for clay utensils.

6.3.1.2 Regional Market : When the selling of the products and services is limited to a region or state, then is called Regional Market. It means that the diverse markets in a state come under the category of regional market. These markets are spread in various regions of a state. For example, In Gujarat, the markets in Ahmedabad and Vadodara are regional markets. Eg. 'Ghari' of Surat, regional films, regional books, etc.

6.3.1.3 National Market : When the products and services are purchased and sold throughout the country, then the market is called National Market. This market is spread throughout various states of nation. Eg. Dairy products, Sari market, Hindi novels.

6.3.1.4 International Market : Its also called Global Market. This market is extended to various country of the world. The sales and purchase in this market is generally referred to as 'Import-export'. Eg. Mobiles Phones, English novels etc.

Due to new inventions, better transportation and communication facilities, cold-storage facilities, there is a change in the classification based on the location and geographical area. The same items and services can be of both regional and national market simultaneously.

6.3.2 Market Based on Quantity : The market based on quantity is classified into two main classes as follows : (1) Wholesale market (2) Retail market

6.3.2.1 Wholesale Market : Here the sales and purchase of items is done on a large scale. The wholesale traders buy the wholesale goods from the market and sell it to the retail traders. This way the retail traders become buyers while the wholesale traders are an important link between the buyers and the producers. For example, Wholesale grain market.

6.3.2.2 Retail Market : The sales and purchase are at a small scale in this market. Thus the retail traders become an important link and provide the goods and service to the customers. The retail traders buy the goods and service large scale and then sell them to the customers on a smaller or retail scale according to their demand and needs.

6.3.3 Market Based on Competition : Normally the market based on competition is classified on the basis of number of sellers and buyers. Of which the market of sellers is more important. The types are : perfect competition, monopolistic competition, oligopoly. The two major classes of market based on competition are : Perfect competition and imperfect competition.

Classification of Markets

- Perfect Competition
- Imperfect Competition
  - Monopoly
  - Monopolistic Competition
  - Oligopoly

6.4 Perfect Competition

Perfect Competition : Perfect competition market is an ideal market. It is only possible theoretically, not practically except the agricultural sector. This market is rarely observed, because the terms for establishing perfect competition are no met that easily. In economics, the study of perfect competition is very important. As this helps in understanding the characteristics and behaviour of other market based on monopoly, monopolistic competition, oligopoly.

6.4.1 Perfect Competition : Definition

(1) **According to Mrs. Robinson :** Perfect competition exist where the demand of product of the producer totally depends on its price.

(2) **According to Prof. Leftwich :** Perfect competition is a market system where there are many firms that sell identical products, with no firm large enough that can influence the market price.

6.5 Characteristics of Perfect Competition

6.5.1 Numerous Buyers and Sellers : This market has large number of buyers and sellers. Of these numerous sellers, a single seller is a very small part of the market. Due to which he cannot control or monopolize the wholesale market, neither can he influence the market price. e.g. : In a wheat farm, the increase or decrease in production of a single far will not affect the total production of the wheat. Thus, being a very small part of the market, the seller cannot influence the market price.

Similarly, the buyers also are numerous, so they also cannot influence the market price. Therefore here the market price depends only on the factors like demand and supply.

6.5.2 Identical Products : Identical products means the products having similar features, form, shape, colour, taste, weight, quality, etc. The products being similar in major aspects are referred to as identical or similar products. Therefore, they can be taken as substitutes of each other.

In this market, the products being identical, the producers or sellers cannot set different prices on the identical products, as the buyers are not ready to pay different prices for products having similar characters and quality.

6.5.3 Free Entry and Exit of Firms : Here there is no restriction on the entry and exit of the firms. When the firms are gaining abnormal profits, newer firms are free to enter the market and similarly, when the firms are suffering from abnormal losses, they are free to exit the market.

The free entry and exit of the firms is seen for a temporary time period. For a very short time the firms enters in the market being attracted by the profits and exits from the market suffering losses. But for a longer time period if the market in the situation of normal profits, there is less movement of firms. Because when the industry reaches at a normal profit, there no attraction to gain higher profits. And in the case of normal profits, the firms don't exit the market as they are not suffering any losses.

6.5.4 Perfect Knowledge of the Market : The producers, buyers, sellers have the complete knowledge of the market including product availability, product price etc.

The producers or sellers are in knowledge of the price at which the other producers or sellers are selling the product. They also are aware about the quality of the identical or substitute product. Thus, in this market a seller cannot charge different prices for identical products.

The buyers also know the price of the products and its quality, so that the seller cannot demand different prices from them. Thus in a perfect competition, the buyers, sellers and the producers are aware of the prices and the quality of the products, due to which the market has perfectly elastic demand curve.

6.5.5 Mobility of Factors of Production : The four factors of production, namely : land, capital, labour, enterpreneur are dynamic and mobile in physical, professional and usage point of view.

In perfect competition, the price is same for identical products. Similarly the price (compensation) of the factors remain same. To refrain from shifting of compensation from low to high due to dynamic and mobile, nature of the production equipment, the firms are uniformly compensated.

6 5 6 No Transportation Expenses : There are numerous buyers and sellers in perfect competition. The expenses of transportation are nominal as compared to the total expense, so are not counted. Thus considering the transportation expense to be zero, makes this an important characteristic of the perfect competition.

6 6 Monopoly

The economists consider the 'Perfect Market' and 'Monopoly' as two completely opposite theories. Monopoly is an imaginary concept. The monopoly observed is in reality imperfect monopoly.

Monopoly has originated from the Greek words, 'Monos' which means 'Single' and 'Polein' means 'Seller'. So, Monopoly means the market having one seller.

6 6 1 Monopoly : Definition

1 According to Prof. Chamberlin : "When the product supply is controlled only by an single enterprise, it is Monopoly."

2 According to Prof. Stigler : "Only one enterprise is the seller of the goods or products."

6 7 Characteristics of Monopoly

6 7 1 Only one Producer or Seller and Numerous Buyers : There is only one seller or producer of the product and goods, who controls the supply of the product. There is no competition in the market as there is only one seller, allowing the seller or the producer to control the price of the product. The producer or seller can decide the price of the product so known as the 'Price Maker' of the market.

When there are countless buyers in the market, the importance of a single buyer becomes negligible. There is competition seen between customers in monopoly. The buyers thus cannot affect the price of the product.

6 7 2 Absence of Substitute Goods : There is absence of substitute goods in Monopoly. But, as in reality there is imperfect monopoly, there is absence or ignorance of the close substitutes. There may be a rare possibility or similar product available. For example, If while buying a railway ticket from a specific company, for a specific time, to a specific location the ticket is unavailable then there is no possiblity of having a similar or substitute ticket to the location. But one can try those possibility to travelling by airplane on the same time, to the same location.

6 7 3 Restriction Over the Entry of New Firms : There are different forms of monopoly in the market. Monopoly means the existence of only one seller. It is possible to end the monopoly but being a difficult process, the seller can sustain his monopoly for a longer duration. Due to absense of competition, the seller controls the price and gains super normal profits.

Even though there is super normal profit due to monopoly, the other firms can not easily enter the market. The monopoly restricts newer firms by factors like natural, law, skills and experience.

6.7.4 Control Over the Price or Sales : To gain maximum profits, the seller controls the supply of the products. But the seller cannot control both the price and the sales of the products. To sell less units or products, the firm sets higher prices, while to sell more units of products the firm must set lower price of product. To sell large number of units of product with high price is not possible.

6.7.5 Super Normal Profit : In a monopoly market, producer and seller are the same. The seller can gain super normal profits, without any competition in both shorter and longer time periods. The seller can put high price on the producer as compared to the total expenses thus gaining super normal profits.

6.7.6 Price-Discrimination : Due to absense of any competition, the seller can set different prices on the same product, depending on its use or form. The seller thus can gain higher profits using the concept of price discrimination, e.g. Doctor.

6.7.7 Firm is Industry : Ideally a firm is the independent unit of production, while the industry is the collection of the firms producing same products. However in monopoly, the producer and the seller are same, so the collection of firms can also be considered a single firm.

6.8 Monopolistic Competition

In reality, market are neither perfectly competitive markets nor pure monopoly markets. A mixed form of both is found. There is coexistence of partial monopoly and partial perfect competition in market, which is known as Monopolistic Competition. The major types of market observed is monopolistic.

6.8.1 Monopolistic Competition : Definition

(1) According to Prof. Chamberlin : "Perfect competition and perfect monopoly coexist in a market, known as Monopolistic Market."

(2) According to Smt. Robinson : "If each firm establishes monopoly and also competes at the same time, the market is called 'Imperfect Competition."

6.9 Characteristics of Monopolistic Competition

6.9.1 Large Number of Sellers and Numerous Buyers : There are numerous sellers in Perfect Competition. In monopoly there is only one seller, while in monopolistic competition there are many sellers. It means that there are neither numerous sellers, nor there is only one seller, but there are many sellers. Due to this in monopolistic competition the factor competition becomes important.

The buyers being numerous in the market, they cannot individually influence the market. Also they cannot affect the price of the product.

6.9.2 Product Differentiation : This is a distinct characteristic of monopolistic competition. It means that a product is different from another product in terms of form, quality and nature. When a producer produces a product, there a possibility that there are minor differences in the products in terms of form, fragrance, taste, shape, weight and quality. Due to theses minor differences, the products can be called different.

6.9.3 Free Entry and Exit of Firms : The free movement of firms means the unrestricted entry and exit of firms. The super normal profit attracts the firms freely in the market. Even when the firms suffer losses, they are free to exit from market.

The free entry and exit of firms occurs only for short period of time. This means, that the firms enter freely by attraction of super normal profit and exit freely when they suffer losses. When there is normal profit, the free entry and exit of the firm decreases and stops. The firms are not attracted by the normal profit so the firms do not enter in the market. Similarly the firms in the market do not exit as they are not suffering losses.

6.9.4 Selling Cost : The expenses done for selling the product are called selling cost. The selling cost includes the packing, making the product attractive, sales taxes, transportation, expenses given to wholesale and retail traders, showroom expenses, a specific amount expended for sales, prizes, gifts and the most important being the advertisement cost. The selling cost does not include the production expenses.

The selling cost is a typical characteristics of Monopolistic Market. This is not seen in monopoly or perfect competition. In this monopolistic competitive market, the sellers try to attract the consumers through the selling expenses. The product difference in the market gives a particular identity to a product. So there can be possibility of selling cost. For example,. Mobile Phones, Soaps etc have different advertisements.

6.9.5 Competition Other than Price : Monopolistic market has competition of price and also competition other than price. The sellers keeping the price fixed, try to attract the consumers by advertisement and compete by modifying the quality. The sellers try to attract the consumers and compete on the basis of factors other than price.

6.9.6 Imperfect Knowledge Regarding the Market : The buyers and sellers do not have the complete knowledge related to the market. They are not aware of identical and substitute products. So the price of identical or substitute product are either high or low, resulting into different price of substitute products.

There are many firms producting identical or substitute products. The firms compete by creating a new identity of the product and thus establishes monopoly like situation. This creastes a monopolistic competition.

6.10 Oligopoly

Oligopoly has originated from the Greek words **'Oligos'** which means 'Few' and 'Pollein' which means 'Sellers'. So, Oligopoly means the market having few producers.

Oligopoly includes the market having few producers which sell identical or substitute products. There is extreme competition in this market.

6.10.1 Oligopoly : Definition

(1) **According to Prof. Stigler :** "Oligopoly is the market in which the firm decides its policy, according to the behaviour of competitors."

(2) **According to Prof. Baumol :** "Oligopoly is the market in which even a small number of sellers out of the total less sellers are effect enough to affect the price of the product.

6.11 Characteristics of Oligopoly

6.11.1 Few Sellers and Numerous Buyers : The number of sellers and producers is less in the market. The number of firms is limited. The number of firms ranges from more than two to less than ten or twenty. Due to this a few number of sellers have a monopoly control over the market.

The number of buyers is numerous in the market, so the importance of a individual buyer is negligible. Due to which the buyers can not affect the market price.

6.11.2 Similar or Substitutable Products : There is sale of identical or substitute products in oligopoly. When the firms in a market, produce and sell identical or substitute products, it is Oligopoly. For example, products like salt, crude oil, tea, etc. When traders produce indentical products the market follows imperfect oligopoly. For example, Cold drinks, motorcycle. etc.

6.11.3 Entry or exit of Firms : In the market of oligopoly, the entry and exit of firms is free or regulated according to the type of oligopoly followed. If there is free oligopoly in the market, then there is free entry and exit of the firms, while the oligopoly is restricted, then the entry and exit of firms is regulated.

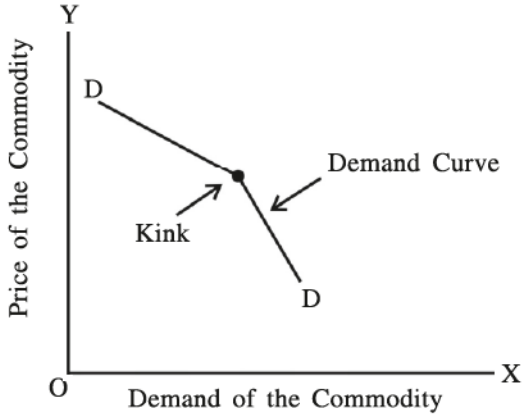
6.11.4 Selling Cost : The expenses done for selling the product are called selling cost. The selling cost includes the packing, making the product attractive, sales taxes, transportation, expenses given to wholesale and retail traders, showroom expenses, a specific amount expended for sales, prizes, gifts, and the most important being the advertisement cost. The selling cost does not include the production expenses.

There is extreme competition in oligopoly. So, the selling cost becomes an important factor of the market. The seller try to attract the consumers through the selling expenses. The product difference in the market gives a particular identity to product. So there can be possibility of selling cost. For example, advertisements of Television, Car, etc.

6.11.5 Inter-Dependence : The sellers and producers are very few in number in this market. The sellers or producers can thus easily gain the important information about other sellers or producers. The sellers and producers special focus on the quality and type of the product to attract the consumers. For example, Television, Car etc. producers or sellers. So the firm decides the price, quality or type of its product, based on the behaviour of the competitors and is dependent on them.

6.11.6 Price Stickiness (Kinked Demand Curve) : The number of firms is less and they are interdependent on each other. If any one firm decreases the price of the product, then according to the law of demand, due to comparatively cheaper price of the product there is more demand of the product in the market of that particular firm as compared to other firms. There is a decrease in the demand of the products sold by other firms. If the competitive firms do not wish this situation, then they also should decrease the price of the product to stay in the competition. At the end, the price of the product reaches at a nominal level, and it becomes impossible to reduce the price further.

On the other hand, if the firm increases the price of the product then the demand of that product decreases, and the competitive firms are profited. Thus, as the nominal price is resistant to change, the demand curve becomes kinked.



6.1 Kinked Demand Curve

Exercise

1. **Choose correct option for the following from the options provided :**

(1) How many types of markets are there according to location ?

(A) One (B) Three (C) Four (D) Seven

(2) 'Negligible Transportation Expense' is the characteristic of which market ?

(A) Perfect Competition (B) Monopoly

(C) Monopolistic Competition (D) Oligopoly

(3) 'Product Differentiation' is the characteristic of which market ?

(A) Perfect Competition (B) Monopoly

(C) Monopolistic Competition (D) Oligopoly

(4) In which market 'Firm is an industry' ?

(A) Perfect Competition (B) Monopoly

(C) Monopolistic Competition (D) Oligopoly

(5) 'Selling Cost' is an important characteristic of which market ?

(A) Monopoly (B) Bilateral Monopoly

(C) Monopolistic Competition (D) Perfect Competition

(6) Inter-dependence is seen in which market ?

(A) Oligopoly (B) Monopoly

(C) Monopolistic Competition (D) Perfect Competition

(7) 'Price Stickiness' is seen in which market ?

(A) Perfect Competition (B) Oligopoly

(C) Monopolistic Competition (D) Monopoly

(8) Which market restricts the entry of firms ?

(A) Simple Competition (B) Perfect Competition

(C) Monopoly (D) Monopolistic Competition

(9) 'Identical Products' is a characteristic of which market ?

(A) Perfect Competition (B) Monopoly

(C) Monopolistic Competition (D) Intensive Competition

(10) 'Super Normal Profit' is a characteristic of which market ?

(A) Monopolistic Competition (B) Oligopoly

(C) Monopoly (D) Perfect Competition

(11) Kinked demand curve is possible in which market ?

(A) Monopolistic Competition (B) Oligopoly

(C) Monopoly (D) Perfect Competition

2. Answer the following questions in one sentence :

(1) Define : Market.

(2) What is regional market ?

(3) What is national market ?

(4) What is Perfect Competition ?

(5) What is Monopoly ?

(6) What is Selling Cost ?

(7) Define : Product differentiation.

(8) Define : Oligopoly.

(9) What is price taker ?

(10) Which market has restriction of entry of new firms ?

3. Answer the following questions in short :

(1) With respect to Perfect Competition, explain 'Transport Cost'.

(2) Explain, in a monopoly market firm and industry are the same.

(3) What is Monopolistic Competition ?

(4) Explain : Price Discrimination.

(5) Explain meaning of inter-dependence.

4. Answer the following questions in brief points :

(1) Explain any three characteristics of Monopolistic Competition.

(2) Explain any three characteristics of Oligopoly.

(3) Explain : 'Price Stickiness'.

(4) Classify the market according to competition.

(5) Give difference between Perfect Competition and Monopoly.

(6) Give difference between Monopoly and Monopolistic Competition.

5. Answer the following questions in detail :

(1) Explain : Market and its characteristics.

(2) Explain : Classification of Market - According to location and quantity.

(3) Explain : Characteristics of Perfect Competition.

(4) Explain : Characteristics of Monopoly.

(5) Explain : Characteristics of Oligopoly.

Glossary

Perfect Competition	:	A competitive market where there are numerous buyers and sellers of a commodity such that no single buyer or seller can influence the price is called perfect competition.
Monopoly	:	A market whrere there is a single seller of a commodity.
Monopolistic Competition	:	A market where there are many sellers of a commodity selling close substitutes such that they have a monopoly of their own commodity but compete with each other in the market.
Production Process	:	The process of conversion of shape, form, nature etc. of a produce/resource in order to increase its utility and usefulness is called production process.
Market	:	'The direct or indirect interaction between buyers and sellers of goods and services with the objective of exchange is called market.'
Price Taker	:	In a perfectly competitive market, a firm cannot influence the market price by its own action and thus can sell any amount at a price given by the market. Such a firm is called a price taker firm
Price Maker	:	In monopoly, a firm decides its own market price and has full control over it as it faces no competition. Such a firm is called a price maker firm.
Super Normal Profit	:	In a market, when a firm's average cost is less than it's average revenue, it is a situation of supernormal profits. (AC < AR)

Price Discrimination	:	The policy of a monopolist to charge different prices from customers of different categories/ types in order to increase his demand is called price discrimination.
Product Differentiation	:	Under monopolist the practice of a seller to differentiate one's commodity in shape, colour, size, taste, fragrance, etc. to compete with other sellers is called product differentiation.
Selling Cost	:	The cost incurred for selling a product.
Interdependence	:	Under Oligopoly the number of sellers or producers is very few so they strive to gather information about other sellers or producers. Sellers compete on the basis of price or product And, they decide on price or variety based on the actions of the competitor. This is called interdependence
Price Stickiness	:	A situation when the price of a product becomes firm or sticky at a particular level is called price stickiness.
Mobility of Factors of Production	:	When factors of production move between occupations, it is called mobility of factors of production.
Firm	:	An independent unit producing or selling a goods or services.
Industry	:	A group of firms selling similar goods.

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