Chapter-04

Forms Of Market And Price Determination

Very Short Answer Type Questions (1Mark)

1. **Define market.**
   Ans. Market is a system with the help of it the buyers and seller of a commodity or service come to contact with each other.
2. **What do you mean by homogenous product?**
   Ans. It means product produced by different firms is identical in all respect like quality, colour, size, weight etc. such products are perfect substitutes.
3. **How is price determined under perfect competition?**
   Ans. Price is determined by an industry by the forces of demand and supply.
4. **What is the common feature shared by perfect and monopolistic competition?**
   Ans. (i) Free entry and exit of firms
   (ii) Perfect mobility of factors.
5. **If the firms are earning abnormal profits, how will the number of firms in the industry change?**
   Ans. The number of firms in the industry will increase.
6. **Define the monopoly market.**
   Ans. It is a form of market under which there is a single seller, selling a product which does not have close substitutes.
7. **Under which market there is no difference between firm and industry?**
   Ans. Monopoly.
8. **What is normal profit?**
   Ans. It is the minimum profit which a firm must get to stay in business.
9. **Under which form of market the firm is price taker.**
   Ans. Perfect competition.
10. **What is cartel?**
    Ans. A cartel is a group of firms which jointly set 'output and price' policy of its product in such a way so as to reap benefits of monopoly.
11. **What is the relationship between AR curve and demand curve in a**

monopoly market?

Ans. Both AR curve and demand curve are the same in a monopoly market.

12. **What do you mean by price discrimination?**

    Ans. Price discrimination is a policy under which a seller sells a similar product at different prices to different buyers.
13. **Define oligopoly.**

    Ans. Oligopoly is a market structure where there are few firms competing for their homogenous or differentiated products.
14. **Define equilibrium price.**

    Ans. It is the price at which demand = supply.
15. **When does the situation of excess supply arise?**

    Ans. When market price is more than equilibrium price and market supply is more than market demand.
16. **What will be the effect on equilibrium price when increase in demand is than increase in supply?**

    Ans. When increase in demand is more than increase in supply, equilibrium price will increase.
17. **Under what situation does the equilibrium price remains unaffected when there is simultaneous increase in demand and supply.**

    Ans. When increase demand is equal to increase in supply the equilibrium price will remain same.

Higher Order Thinking Skill

1. **What is the relation between average revenue curve and demand curve under monopolistic competition?**

   Ans. Both AR and MR curves have negative slope

Short Answer Type Questions (3-4 MARKS)

1. Why is firm under perfect competition a price taker and under monopolistic competition is price maker. Explain?
2. How is the demand curve under monopolistic competition different from demand curve of a firm under perfect competition?
3. Why is a firm under perfect competition a price taker? Explain.

4. Explain three features of perfect competition.
5. Explain the implication of large number of seller feature of perfect competition.
6. What will happen if the price prevailing in the market is above the equilibrium price.
7. Distinguish between monopoly and oligopoly.
8. Explain the concept of excess demand with the help of diagram.
9. Differentiate between 'Collusive and non-collusive oligopoly.
10. Explain the determination of equilibrium price under perfect competition with the help of schedule.
11. Explain why is the equilibrium price determined only at the output level at which market demand and market supply are equal.

Higher Order Thinking Skill

1. MR = AR in perfect competition but MR < AR in monopoly and monopolistic competition why?
2. In which condition decrease in demand can not change the price of commodity?
3. Explain how firms are interdependent in an oligopoly market.
4. In which competition the availability of close substitutes is present? How does it effect the price?
5. Explain the implication of 'freedom of entry and exit to the firms' under perfect competition.

LONG ANSWER TYPE QUESTIONS (6 MARKS)

1. Explain the characteristics of monopolistic competition.
2. Market for a good is in equilibrium. There is simultaneous increase both in demand and supply of the good. Explain its effect on market price.
3. Explain the term market equilibrium. Explain the series of changes that will take place if market price is higher than the equilibrium price.
4. How will a fall in the price of tea affect the equilibrium price of coffee. Explain the chain of effects.
5. Explain the following features of perfect competition.
   i. Large number of firms or Sellers and Buyers
   ii. Homogeneous Product.
6. Explain features of Oligopoly.

7. Explain how change in price of a substitute commodity would affect market equilibrium of the commodity X.
8. With the help of a diagram explain the effect of “decrease” in demand of a commodity on its equilibrium price and quantity.
9. There is simultaneous decrease in demand and supply of a commodity, when it result in
   i. no change in equilibrium price
   ii. a fall in equilibrium price.