Q1. Explain equilibrium price determination in market?

Equilibrium price refers to the price where market supply and market demand for a commodity are equal to each other. It is this price that uniformly prevails in a perfectly competitive market. At equilibrium price, all buyers satisfy their stipulated level of demand and all sellers succeed in selling the stipulated quantity of a commodity. The equilibrium price therefore is the price at which demand and supply equal each other or the purchases and sales of buyers and sellers respectively coincide. The present chapter discusses determination of equilibrium price and quantity under conditions of perfect competition.

Q2. Explain price determination under Perfect Competition?

Perfectly competitive market is one in which the number of buyers and sellers are very large. All are engaged in buying and selling a homogeneous product with out any artificial restrictions and possessing perfect knowledge of market at a time. In the words of Robinson, perfect competition prevails when the demand for this out put of product is perfectly elastic. This entails first that number of seller is large so that this out put of any seller is negligible in small proportion of the total output of this commodity. The second thing is that buyers are alike in respect of their choice of rival seller so that the market is perfect. The following are the conditions for the existence of perfect competition.

1) **Large number of Buyers and Sellers :-** the first condition is that the number of buyers sellers must be so large that none of them Individually in a position to influence the price and out put of the industry as a whole.
2) **Homogenous Product :-** each firm produces and sells a homogenous product so that no buyers has any preference for the product any individual seller over other. This is possible only if units of the same product produced by different seller are perfect substitute.
3) **Absence of Artificial Restrictions :-** the third condition is that there is complete opener in buying and selling goods. Sellers are free to sell buyers are free to buy from any seller.
4) **Freedom of Entry and Exit of new firms :-** the next condition is that the firm should be free to enter or leave the industry. This condition holds true in the long-run when firm must earn normal profits.
5) **Absence of transport cost :-** the last conditions is that there should be no transport cost in carrying a product from one place to another. This condition is essential for the existence of perfect competition which requires that a commodity must have the same price every where at any time.

Q3.what do you mean by Monopoly?

The word Monopoly is made up of two syllabus mono and poly. Mono means single wile poly implies selling, thus if there is only one single seller. Of a product in the market that situation is referred to as Monopoly. But this is only a literal meaning of the term monopoly. Actually the term monopoly in economics is linked with the degree of competition prevalent in the market. It in a market there is a one single seller of a product and here is no competition at all, the situation will be one of the pure or perfect or absolute monopoly. Further the distinction between the firm and industry (so important under perfect competition) disappears altogether under pure monopoly. In technical language we may define pure or perfect monopoly as a single firm, industry where the cross elasticity of demand between the product of the firm and that of other commodities in the market is zero.

Features of Monopoly ;-

1) **One seller and large number of buyers :-** under Monopoly, there should be a single producer of commodity. He ma be alone. Or there may be a group of partners or a joint stock company or a state. Thus there is only one firm under Monopoly.
2) **Restriction on the entry of a new firm :-** under monopoly, there are some restrictions on the entry of new firms into monopoly industry.
3) **No close substitute :-** a monopoly firm produces a commodity that has no close substitute.
4) **Full control over price :-** since he alone produces a commodity in the market, a monopolist has full control over its price. He can fix whatever price he wishes to fix for his product.
5) **Possibility of Price discrimination :-** many times monopolist charges different price from different consumers. It is called price discrimination.

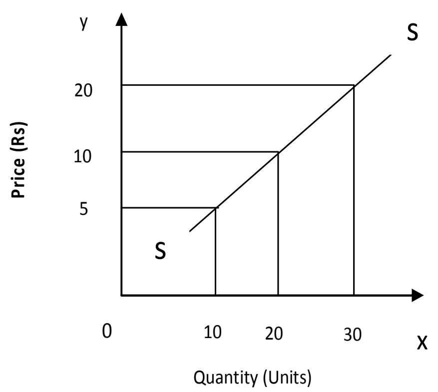
Q4. Explain meaning of supply and market supply?

Supply refers to the quantity of a commodity offered for sale considering different possible prices at a point of time. Supply refers to the part of the stock that the seller is prepared to sell at a given price and at a given time. Supposing the stock of wheat in he market in the month of March 2000 is 100 tonnes and the prevailing price is Rs 500 per quintal. If at this price, the seller is prepared to sell 10 tonnes of wheat, and then the supply of wheat will be 10 tonnes only.

Market Supply :- Market supply refers to supply of a commodity by all the firms in the market producing / selling that particular commodity. Thus if at a given price firm 'A' is willing to sell 100 units of a commodity and firm 'B' is willing to sell 200 units and if there are only two firms producing this particular commodity, market supply (also called industry's supply) will be 300 units.

Q5. What is supply curve?

Supply curve is a graphic presentation of supply schedule, indicating positive relationship between price of a commodity and its quantity supplied. In fig I, SS is the supply curve. It has a positive slope meaning thereby that as price rises, the supply extends. It is evident from this fig. that if price is Rs5 or less than that, the seller will not be prepared to sell any unit.



Q6. What is Market?

The term market is used in a special sense in economics in the ordinary language, it refers to a particular place where buyers and sellers meet each other and buy and sell the commodities. In economics, the market does not refer to any particular place but the entire area where buyers and sellers of a commodity are in such close contact with each other, that sale and purchase of the commodity is effected. Face to face contact between buyers and sellers is not necessary. They can establish contact through different means of communication namely, telephone, telegraph, letters, fax, e-email, agent etc.

Types of Market :-

1) **Perfect Market :-** when the competition amongst the buyers and sellers is so perfect that there is a tendency for the same price to prevail, for the dame commodity, in the same market and at the same time, the market is said to be perfect market.
2) **Imperfect Market :-** imperfect Market is an important market category where the individual firms exercise their control over the price to a smaller or larger degree. And this market is also known as monopolistic competition. In this market there is very large number of firm but their product is some what differentiated. Hence the demand of the individual firm has a negative slope, but its price elasticity is high due to the existence of the close substitute produced by the other firms in the industry. Despite, the existence of close substitute each firm acts automatically ignoring the competition reactions because there are too many of them and each one would be very little effective by the actions of any other competitions. Thus, each seller thinks that he would keep some of his customers if he raised his price and he would increase his sales but not much, if he lowered price, if he lowered his price elasticity but is not perfectly elastic because of the attachment of customers to the slightly differentiated product he offers.

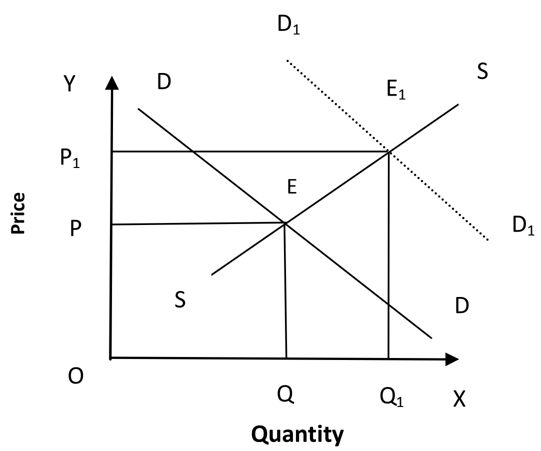
Q7. Explain diagrammatically effect of change of Demand?

Change in demand has two aspects :-

1. Increase in Demand

2. Decrease in Demand

In case of increase in demand, demand curve shifts to the right and in case of decrease in demand, demand curve shifts to the left. The effect of increase in demand and decrease in demand is explained through diagrams (A), (B).



In this fig. while supply remains unchanged due to an increase in demand, the demand curve shifts upwards (right words) from DD to D_1 D_1. This new demand curve shifts intersects supply curve SS at point E. the new equilibrium point. Will be E_1. At this point E_1. The =M price will increase from OP to OP_1 and =M quantity increases from OQ to Q_1.

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Decrease in demand.

This fig. shows that while supply remains unchanged, due to decrease in demand , the demand curve will shift downwards (left words) to $D_2 D_2$. This new demand curve $D_2 D_2$ intersects supply curve SS at point E_2. This E_2 will be new point of = M. at point E_2 the = M price will fall from OP to OP_2 and = M quantity fall from OQ to OQ_2