

# Lesson - 21

## Forms of Market

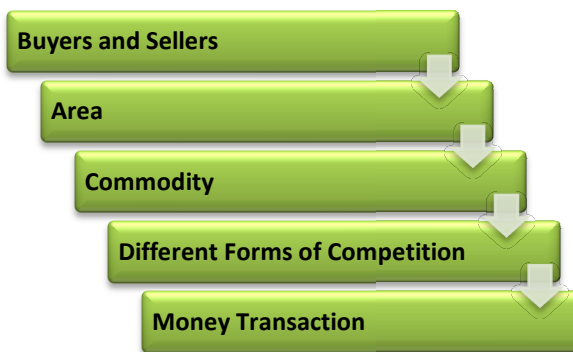
### Summary

In previous lesson, we discussed about various components of producer's behavior except the aforesaid topic "Forms of Market". Market is the major source of distribution of goods and services. The purpose of producing goods is to sell them to the consumers who demand them. In economics, the concept of market is based on competition between buyers and sellers who are interacting to each other for the purpose of buying and selling of goods and services. The variety of market structures characterizes an economy. These market structures essentially refer to the degree of competition in a market. Let us understand forms of market.

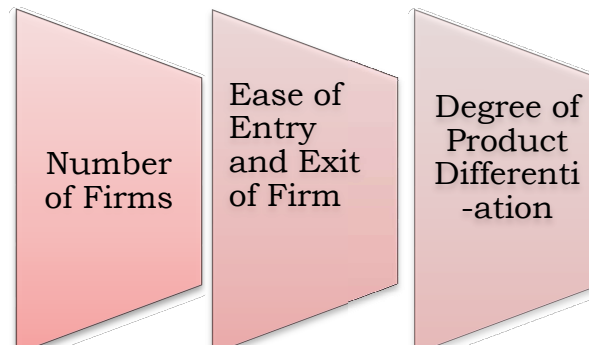
### What is Market

In common parlance, market is assumed to be a place where goods are bought and sold. But in economics, the term 'market' does not refer to a specific place. Rather, it is a mechanism through which buyers and sellers come into contact with each other and buy and/or sell goods at mutually agreed prices.

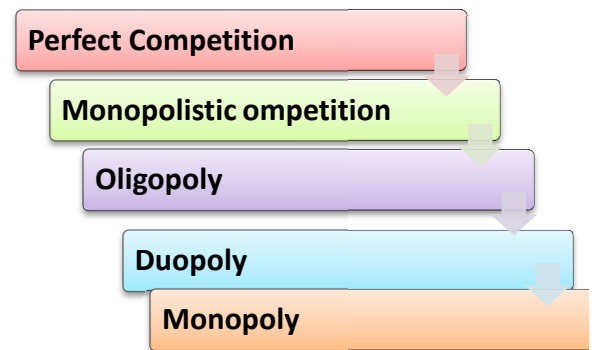
#### **Main Features of a market -**



### **BASIS OF DIFFERENT MARKET FORMS**



### **DIFFERENT FORMS OF MARKET STRUCTURE**



## Perfect Competition

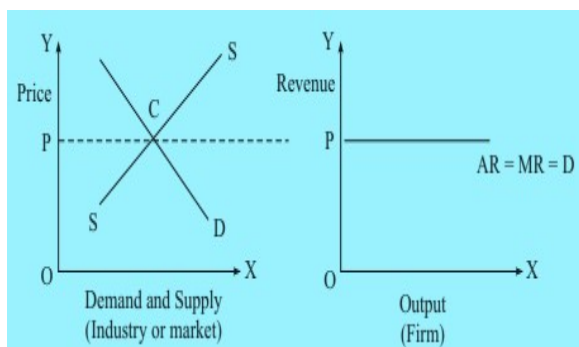
- Perfect Competition is a market structure in which there is a large number of buyers and sellers who transact homogeneous or similar goods at a price fixed by the market or industry.

### **Features of Perfect Competition -**

- Very Large number of buyers and sellers
- Homogeneous Product
- Firm is a Price Taker
- Free Entry and Exit
- Perfect Knowledge
- Perfect Mobility
- No Selling Costs
- Shape of Demand Curve

### **Nature and Shape of Demand Curve -**

- Under perfect competition, the demand curve for the firm is horizontal and perfectly elastic.



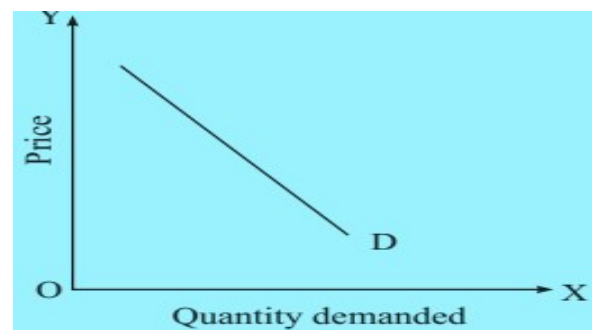
## Monopoly Market

- Monopoly is a market structure in which there is a single seller, there are no close substitutes for the commodity produced by the firm and there are barriers to entry. Example: Indian Railways which is operated under government of India. Monopoly also implies absence of competition.

### **Features of Monopoly -**

- Single Seller
- No Close Substitute
- strong barriers before a new firm to enter the market
- Price Maker
- Price Discrimination
- Shape of Demand Curve

### **Nature and Shape of Demand Curve**



Demand curve is less elastic in nature. That is why a monopolist practices price discrimination in selling of goods and services

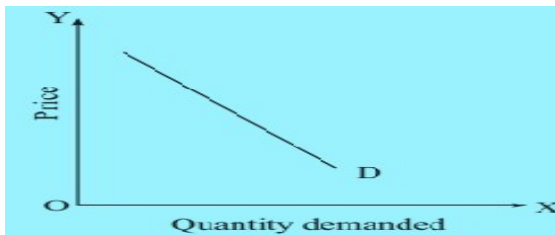
### **Monopolistic Market**

- According to J.S. Bains, “Monopolistic Competition is a market structure where there is a large number of sellers, selling differentiated but close substitute products.” Example - Restaurants, Market for Toothpaste etc.

### **Features of Monopolistic Competition –**

- Large number of firms
- Product Differentiation
- Selling Costs
- Non-Price Competition
- Nature of Demand Curve

### **Nature and Shape of Demand Curve -**



In this market, demand curve reflects greater price elasticity of demand and less control of the firm than that of monopoly.

### **Oligopoly Market**

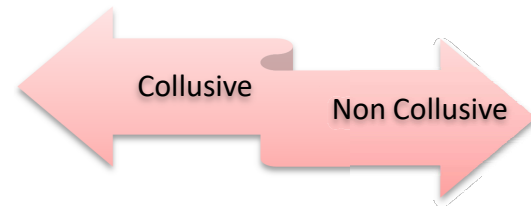
- Oligopoly can simply be defined as the competition among the few firms. The products of these firms may either be close substitutes or

homogeneous. Example Mobile service providers, car industry, airlines etc.

### **Features of Oligopoly Market**

- Interdependence
- Indeterminate Demand Curve
- Indeterminate Demand Curve
- Group Behaviour
- Price Rigidity

### **Types of Oligopoly**



### **Collusive oligopoly**

- The firms under oligopoly may decide to co-operate with each other and make common pricing policies and output decision for all the firms
- The group of firms can behave like a monopolist and earn supernormal profits.

### **Non-collusive oligopoly**

- When firms do not co-operate with each other and engage in fierce competition with each other, the market is called non-collusive oligopoly
- . Under such environment, firm`s profit level go down unable to earn normal profit only.

### **Evaluate Yourself**

Q. "A firm is price taker not a price maker" Under perfect competition. Justify the statement with the help of diagram.

Q. Distinguish between various characteristics of perfect completion and monopoly market structure.

Q. Compare demand curve of monopolistic and monopoly market structure.

Q. List out characteristics of oligopoly market structure.