Class: 10th Tender Heart High School
Economics
Lokesh Arora

Date 22/7/24
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Ch-5 Meaning and Types of Markets.

Good Morning Students,
This lesson is for class 10th for the subject of Economics. The topic for today is "Markets and types of Markets" which is covered in chapter 5 "Meaning and Types of Markets" of your book.
This lesson is being submitted to you on 22/7/24.
All the students now please open page number 108 of your book and listen carefully.

Market:-

In simple words, the word 'market' means a group of shops where the buyers and sellers can engage in transactions of goods and services. It refer to a market place.
But in Economics
"Market refers to the whole area where buyers and sellers of a commodity are in competition with each other to effect purchase and sale of the commodity
Features of Market:-
(i) Area (ii) Buyers and sellers
(iii) Commodity (iv) Competition.
For explanation refer to page 108 of your book.

Types of Markets:-

On the basis of degree of competition, markets in a capitalist economy can be classified into four types. These are:-
(i) Perfect competition (ii) Monopoly.
(iii) Monopolistic Competition (iv) Oligopoly.

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1. Perfect Competition:-
Perfect competition is a market situation, where there are large number of buyers and sellers selling homogeneous products. Price is given to every seller. No individual seller is big enough to influence the price of the commodity.
Features of Perfect Competition:-

(i) Very large Number of Buyers and Sellers:-
In a perfect competition market, there are large number of buyers and sellers of the commodity. No individual seller is big enough to influence the market price of the commodity by reducing or raising his own supply.
Similarly no individual buyer is big enough to influence the market price of the commodity by changing his demand.
Thus each firm in a perfect competition is a price-taker not a price maker.

(ii) Homogeneous Products:-
Under perfect competition, all sellers sell completely identical goods (Homogeneous goods) Homogeneous products refer to those products which are identical in quality, shape, size, colour, design, packing etc. Since the product sold by the sellers is identical, no seller can raise the price of his product. If he does so, he will lose all his customers.

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(iii) Free Entry and Exit of Firms:-
Another important feature of perfect competition is that there is absolutely no restriction on entry of new firms in the industry or exit of old firms from the industry. Due to this feature, abnormal profits and abnormal losses are reduced to zero.

(iv) Perfect Knowledge:- Buyers and sellers both have perfect knowledge about the prevailing market conditions. This knowledge refers not only to the prevailing conditions in the current period but in all future periods as well. For example, sellers are aware of the prices charged by other sellers and costs prevailing in different parts of the market. Similarly, buyers should know the prices being charged by other sellers. So, perfect knowledge on the part of buyers and sellers leads to uniform price.

(v) Perfect Mobility:-
Another feature of perfect competition is that there is perfect mobility in the market both for goods and factors of production. Goods can be sold at any place. Similarly, factors of production can freely move from one place to another or from one occupation to another.

(vi) No other Costs except Production Costs:-
In a perfectly competitive market, the

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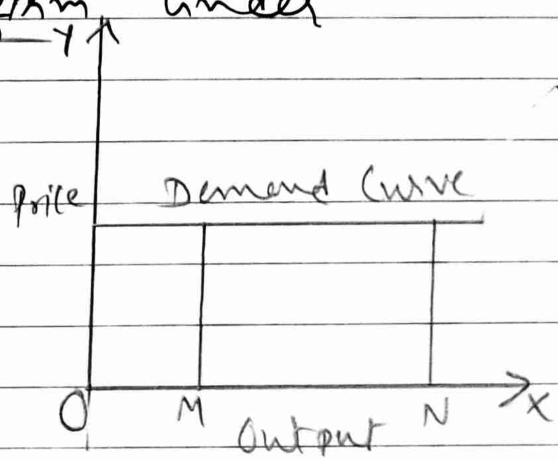
production cost is the only cost. There are no other costs such as advertisement cost, transport cost, storage cost etc. A producer can sell his product at any place and a buyer can buy it from the place he likes.

Demand Curve of the firm under Perfect Competition.

Under perfect competition, all the firms sell homogeneous products. Each firm is a price taker and faces a perfectly elastic demand curve



Thus, the above figure shows that demand curve of a firm in a perfectly competitive market is perfectly elastic i.e. parallel to the x-axis, which means a small change in price can bring an infinite change in the demand.

Before going further, lets take a short break. Write the answers of the following questions during the break.

(i) What is a Market?
(ii) Explain any two features of Perfect competition.
(iii) Write different types of markets on the basis of degree of competition.

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Monopoly:-
The word 'Monopoly' is composed of two words (a) 'mono' which means single and (b) 'Poly' which means a seller. Thus, monopoly refers to a market situation where there is only one seller and large number of buyers. Buyers have no option but to purchase the commodity from that seller or go without it. There are no close substitutes for the commodity sold by the only seller.
Example:- Indian railways is an example of monopoly in India. Since there is only single firm in the market.

Features of Monopoly:-
(i) Single seller:-
Under monopoly, there is only one seller or firm or manufacturer of a commodity. Therefore there is no difference between the firm and the industry. But there are large number of buyers under monopoly. As there is only one seller so each buyer have no option but to purchase the commodity from that seller or go without it.
(ii) No Close substitutes:-
Another feature of monopoly is that there are no close substitutes available of the product sold by the monopolist.

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(iii) Restriction on the Entry of New Firms:-
Under monopoly, new firms cannot enter the industry. There are strong barriers that prevent new firms to enter the industry. These barriers may take several forms such as patent rights, government license, economies of scale etc. Thus, a monopolist faces no competition and earns abnormal profit in the long run.

(iv) Firm is a Price Maker:-
Due to strong barriers to the entry of new firms into the industry, the monopoly firm has full control over the supply of its product. Therefore, it has full control over its price also. A monopolist can influence the market price by varying its supply.

(v) Price Discrimination:-
The act of selling the same product at different prices to different buyers is known as price-discrimination. A monopolist can charge different prices from his different buyers easily.

Demand Curve under Monopoly:-
The demand curve under monopoly is downward sloping that means more can be sold by lowering the price. It is because firm has no control over the demand.
But the demand ~~Curve~~ curve under monopoly is less elastic because

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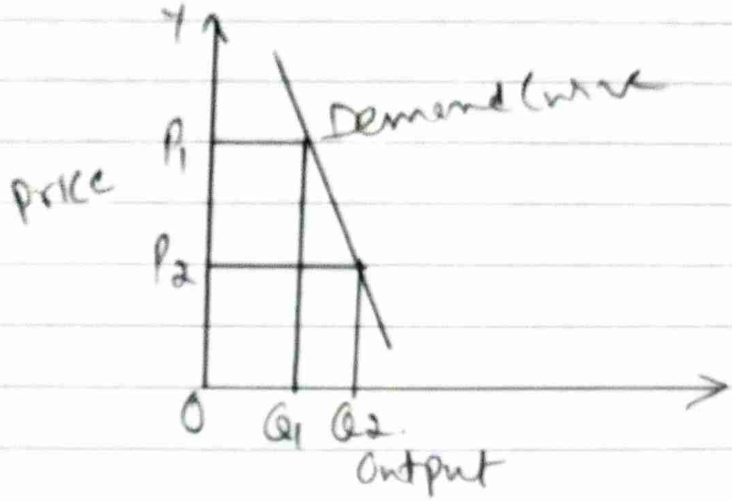
is no close substitutes of the product. So demand will not be changed much due to rise in price.



Monopolistic Competition:-

Monopolistic competition is a market situation where there are large number of buyers and sellers selling closely related goods but surely not homogeneous.

For Example:-

lets take an example of toothpaste. There are many toothpastes in the market, such as Colgate, Close-up, Pepsodent, Dant Kanti etc. These are all closely related goods but there may be difference in quality, colour, size, taste etc. which seperate them from one another. Different brands of toothpastes are close but not perfect substitutes for each other. Each producer has monopoly over his own product but at same time, has to face competition from rival firms producing different varieties of toothpaste. Thus, we find a combination of

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monopoly and competitive elements. Similarly markets of so many products like tea, shoes, shampoo, watches, clothes, jeans, etc. are examples of monopolistic competition.

Features of Monopolistic Competition:-

(i) Large number of Sellers and Buyers:-
There is large number of buyers and sellers in a monopolistic competition market. But number of seller is not as large as there in perfect competition. Each seller is independent of other seller and produces an insignificant portion of total output. Price decisions of one firm does not effect the price decisions of other firms.

(ii) Product Differentiation:-
Product differentiation is a unique feature of monopolistic competition. Products of various firms are similar in nature but are differentiated in terms of brand name, shape, colour, size, quality etc. Products are very similar to each other but not identical. This means that products of various firms are close but not perfect substitutes.

(iii) Free Entry and Exit of firms:-
Firms under monopolistic competition are free to enter or leave the industry at any time. New firms may start producing close substitutes of products and supply the same

in the market. Likewise, in the event of losses, the old firms may quit the industry. It is because of this characteristic, that firms are able to manage only normal profits.

(iv) Selling Costs:

In a monopolistic competition, every firm tries to promote its sales through advertisement. Expenditures incurred on advertisement, etc. are called Selling Cost. Selling costs are made to persuade buyers to buy a particular brand in preference to other brands of the product.

(v) Non Price Competition:-

Besides price competition, there also exits non-price competition under monopolistic, competition. Rival firms compete with one another without changing the price of their products. Product differentiation and selling costs are the two main forms of non-price competition.

(vi) Imperfect Knowledge:-

Buyers and sellers here do not have perfect knowledge about the market conditions. Due to product differentiation, it becomes very difficult to compare the prices of different products. Sometimes the products of different sellers are same but consumers may come to know a particular brand name more than the others because some firms incur lot of expenditure on advertisement.

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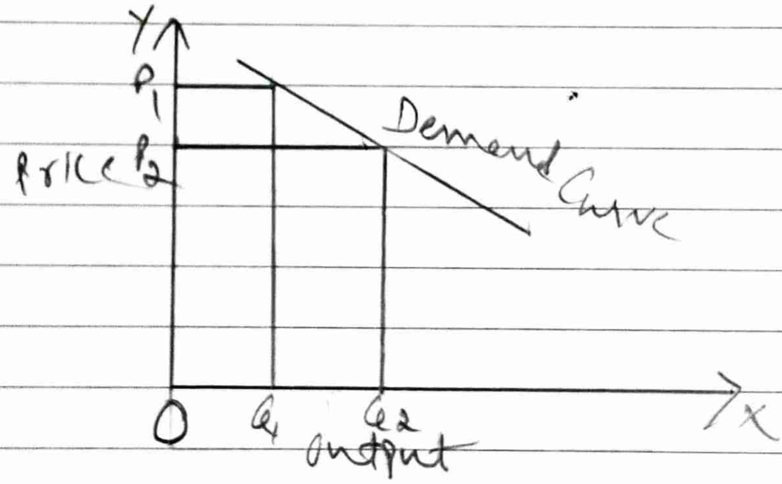
Demand Curve under Monopolistic competition:-

Like monopoly, a firm under monopolistic competition can sell more quantity of a product only by lowering its price. So, the firms demand curve slopes downwards. The demand curve of a firm under monopolistic competition is highly elastic due to availability of substitute. The effect of change in price on demand is less than change in demand. This means demand change higher than change in price.



With this, I am ending my topic here. Write the answers of following questions in your note-books.

1. What is Monopolistic Competition? Explain its features.
2. What is Price-Discrimination?
3. Explain the features of Market.

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