CHAPTER-6

Forms of market or Types of Market

In common parlance by market is meant a place. Where commodity is bought and sold-but it is rough interpretation of the term.

In economics the term market does not refer to a particular place but it refer to a commodity.e.g.when we say wheat market. We do not refer to a particular place.

The market is a set of conditions in which buyers and sellers come in contect for the purpose of exchange

Economics usually classify market structure on the basis of two criteria-

(1)The number of firms working in the market.
(2)The characteristics of product.

On the basis of these criteria economics consider four important types of market perfect competition is one of them-

(1)Perfect Competition:-

In the study of market structure perfect competition is an important type of market. It has been formulated by classical economist. According to classical economist.

Perfect Competition may be defined as a market situation in which a single market price is ruling for the commodity, which is determined by the forces of total demand and total supply in the market.

Characteristics	Assumptions	Conditions	Features of Perfect competition	

Perfect Competition is said to prevail in the market when the following condition exist-

(i)Large number of buyers and sellers:-

The first condition of perfect competition is that there is a large number of buyers and sellers in the market, in such a situation each individual buyer and seller deal with a very small quantity in market.

Each buyer buys so little and each seller sells so little that none of them is in a position to influence the market.

In other words we can say that in the Perfect Competition there should be large number of firm in the industry. The output of an individual firm is a very small of the total output of the industry therefore an individual firm has no command over the price. But an individual firm has to accept the price. Which is determined in the market by the forces of total supply and total demand.

(ii)Existence of homogeneous product:-

The second important feature of perfect competition is that the product being sold by the various sellers must be homogeneous or identical in eye of buyers. The product are homogeneous in the sense that they are perfectly substitute from the buyers point of view. This ensures that no firm can change a price even slightly above the ruling market price. Because if it does so, the firm will lose all his customers.

(iii)Perfect Knowledge about Market:-

The important condition of perfect competition is the existence of perfect knowledge on the part of buyers and sellers. Since we assume that the buyers have perfect knowledge about the market conditions there is no need to do any expenditure on publicity and advertisement. In this way sellers also possess perfect information especially regarding the market price.qauality of product, number of competitors, substitute etc.

(iv)Non existence of transport costs:-

A perfectly competitive market also assumes the non existence of transport cost. It assume that the various firms so close to each other that there are no transport cost. This condition essential because only then there will prevail a single uniform price for the same product .If transport cost are added to the price of the product even a homogeneous commodity will have different price.

(v)Perfect mobility of factors of production:-

Another important condition of Perfect Competition relates to the perfect mobility of factors of production. This implies that the various factors of production move freely from one occupation to another occupation, from one place to another place. The factors of production move where they get maximum rewards.

(vi)Free entery and exit:-

There is free entery of new firms in to the market.There is no legal-technical,fiannce or any other barrier to their entery.Similarly existing firms are free to leave the market.Thus the mobility of firms eusure that whenever there is scope in the business new firms will enter and competition will be always stuff

When above all conditions are together satisfied in the market, we can say there is a Perfect Competition. But according to Prof.Joel Dean it is a myth of classical economist. It has never existed and it can never exist.

(2)Monopoly:-

The term monopoly is made up of two words.Mono and Poly.Where Mono means Single and Poly means to Sell. Monopoly thus means power to sell alone, in other words when there is only one single seller of a product in the market, that situation will be referred to as monopoly. But this is only a literal meaning of the term Monopoly.

Types of Monopoly:-Actually the term Monopoly in economics is linked with the degree of competition prevailing in the market. on the basis of degree of competition we can classify Monopoly in to two types. They are as under.

(i)Pure or Perfect or absolute Monopoly:-

If in a market there is one single seller of a product and there is no competition at all. The situation will be known as pure-perfect or absolute Monopoly

In technical language we may define pure Monopoly as single firm industry. Where the cross elasticity of demand between the product of the firm and that of other commodity in the market is zero.

Zero cross elasticity implies that there is no substitute (close or far)available in the market.and monopolist has perfect control over the supply of product But in reality there is no pure Monopoly in the market in any commodity.

(ii)Limited, imperfect or relative Monoploy:-

Limited Monopoly is very much realistic market situation-limited monopoly may define as a market situation in which there is a single seller of the product for which there are no close substitute. In other words the substitute of the product is available in the market but they are not close substitute. In this way under imperfect monopoly far substitute are available and therefore the monopolist is not so powerful as the pure monopolist.

In technical language we may defined imperfect monopoly as a single firm industry.Where the cross elasticity of demand between the product of the firm and that of other commodity in the market is small or above zero.

Characteristics or Conditions of Monopoly:-

(i)In monopoly there should be only one seller in the market.

(ii)Monopolist has full control over the supply because he is alone in the market.

(iii)In a monopoly market the monopoly firm itself is the industry-therefore monopoly know as single firm industry.

(iv)In monopoly, firm is in a position to determine the price in this way monopolist is price maker.

(v)The demand curve of monopoly firm is relatively inelastic. It is downward slopping curve. It suggests that the monopolist can sell more output only by reducing the price.

(vi)In monopoly firm is in a position to earn abnormal profit.

(vii)In monopoly the unity of product is homogeneous.

According to Prof Joel dean product under monopoly is lasting distinctiveness. Its distinctiveness lasts for several years-pure monopoly is a myth but imperfect monopoly is a very much realistic.

(3)Monopolistic Competition:-

The term Monopolistic competition is frequently used as synonyms of imperfect competition. This however is wrong because there does exist a distinction between two terms.

According to the classical economist there are only two types of market in market structure.(1)Perfect competition (2)Monopoly- But in actual life it is almost impossible to discover a single commodity which is sold under perfect competition and it is equally difficult to discover example of pure Monopoly. The reality however is to be found somewhere between the two extreme situations. The large majority of markets in real life display the characteristics of both monopoly as well as competition in some the monopoly element predominates while in other competition hold.

Such market situation is referred to as imperfect competition. In other words, imperfect competition is that market situation which lies between the two extremes of perfect competition and Monopoly.

Before 1933 imperfect competition as a market situation did not receive any attention at all. In 1933 Mrs Joan Robinson (Economist of great Britain) Published a book named Economics of imperfect competition and at the same time in America Prof.E.H. Chamberlin Published a book named theory of Monopolistic Competition; in this book they have developed the theory of imperfect competition.

A major difficulty in formulating the theory of imperfect competition is that it takes too many forms, important forms of imperfect competition are (1)Duopoly(2)Oligopoly (3)Monopolistic

From the above discussion it becomes evidence that imperfect competition and Monopollistic competition are not inter changeable term .Imperfect Competition is a much wider and more comprehensive term than monopolistic competition.Infact Monopolistic Competition is only one of the Many sub-categories of imperfect Competition.

Characteristics of Monopolistic Competition:-

(1)Existence of many Firms:-

We have seen that under Perfect Competition there is a large number of firms working in industry.and we have also seen that under monopoly there is only one firm.While under Monopolistic Competition there are many firms working in the industry.each of them producing differentiated product which are relatively close substitute for each other,under Monopolistic Competition there does not exist only one firm as in Monopoly at the same time the number of firm is not so large as under Perfect Competition here the number of firm is fairly large and therefore the size of the each firm under Monopolistic Competition is small.As result an individual firm has relatively small part of the total output.So that any action on its part to increase or decrease the output and price will have little or no effect on the rival firms.

(2)Product differentiation:-

The second important Characteristic of Monopolistic Competition is product differentiation this means that the various firms under monopolistic competition produce not homogeneous or identical product but differentiated product which are closely related to each other. According to Prof.Stonier and Hague product differentiation means that the product are different in some way but not altogether so.

Product differentiation can be bought by various way.

(i)The firms may bring about product differentiation through quality.

(ii)The firms may bring about product differentiation by offering to their customers supplementary and other services along with the sale of the product.

(iii)The firms may bring about product differentiation by advertisement and publicity .This known as sales promotion.

(3)Easy entry and exist:-

The third important feature of Monopolistic Competition is that there is no difficulty for a new comer or an existing firm to leave the industry. And it is due to simplicity of production technique and smallness of capital requirement.

(4)Existence of selling cost:-

The important condition of Monopolistic Competition is the existence of selling cost. Under perfect Competition various firm produce identical Commodity. and there is perfect knowledge of market. Selling cost therefore is not necessary. Under Monopoly there is only one firm in industry. There is no competition at all therefore here selling cost becomes unnecessary. But under Monopolistic Competition there is a fairly large number of firms and each one producing differentiated products which are relatively close substitutes for each other. Therefore it becomes essential for the firm to do selling cost.

(5)Different prices for differentiated product:-

We have seen under Perfect Competition each firm produces a homogeneous product and there is Perfect knowledge of market .Therefore there is a single price ruling in the market. But under Monopolistic Competition each firm produces a differentiated product and consumer has no perfect knowledge about the market condition. Therefore here prices are different.

(6)Control over the Price:-

We know that under Perfect Competition an individual firm has no control over the price. Because it is one of the very many firms in the industry. But under Monopolistic Competition this is not so because of the product differentiation. Each firm has partially independent market.and there fore it has some control over the price.

(4)Oligopoly:-

The term Oligopoly is made up of two words.Oligos and Pollen .Where Oligos means a few and Pollen means to sell. Thus Oligopoly is that form of imperfect competition where there are few firm in market producing either an homogeneous or differentiated product which are closely substitute.

According to Prof.George Stigler-Oligopoly is that market situation in which a firm formulates its market policy in part on the expected behavior of few close rivals.

Oligopoly is a real world market situation. Even in India we find that very few firms are controlling the whole market in certain commodities.Moter car industry in India is an example of Oligopoly.

Characteristics of Oligopoly:-

(1)Few firms are working in the industry.Number of firms should be between 3 to 20 in Oligopoly market.

(2)The sellers supply either homogeneous product or differentiated product.

(3)The firm has a high degree of interdependence in their business policy about fixing of price and determination of output.

(4)The product under Oligopoly contain high degree of cross elasticity of demand.

(5)Advertising and selling costs have strategic importantance in an oligopoly market.

(6)Competition is of unique type in an Oligopolistic market.each firm has to make constant struggle with rivals.

(7)There are two conflicting attitudes on the part of the firm operating in the market in Oligopoly.

- To remain independent in decision making.
- At times each firm desires to combine or unite together to maximize the profit.

(8)The pre-dominant element of monopoly is present in Oligopoly.

(9)Each firm prefers to follow rigid price policy in Oligopoly market. therefore there is a kinked demand curve.

(10)In economics Oligopoly is known as cat mouse competition.