MODULE-3 MARKET STRUCTURES

A market is defined as place where buyers and sellers brought in close contact for the purchase and sale of a commodity. Market structures affect the supply of different commodities in the market. Economists divide market structure based on competition into four basic types.

TYPES OF MARKET

- **Perfect Competition**
- **Monopoly**
- **Monopolistic Competition**
- **Oligopoly**

Define perfect competition.

Enumerate its various features.

PERFECT COMPETITION

It is a market structure where an individual firm cannot influence the prevailing market price of its own. ***Each seller here is a price taker. Price is determined by the interaction of demand and market supply.*** A good example of perfect competition is agriculture market. Otherwise it as an ideal situation which rarely exists in the world. The major features of perfect competition are the following.

1) **Large number of buyers and sellers**. The buyers and sellers are very large under this market. Each producer or seller deals with a small portion of the total output exchanged in the market.

2) **Homogenous product:** A commodity produced by all firms is same or they produce identical products. This condition ensures that the same price rules prevail in the market.

3) **Freedom of entry and exit**: There is no restriction to entry and exit. Any firm can enter the industry or they can leave the industry as they like.

4) **Profit maximization goal**: All the firms in the industry aim to maximise their profits.

5) **Free mobility of goods**: Goods can be freely transported an all parts of the market. There are no transportation cost and government regulations.

6) **Absence of transport costs**: Another condition is that there are no transportation costs in carrying the product form one place to another.

7) **Perfect knowledge regarding market conditions:** All the buyers and sellers have perfect knowledge regarding market conditions .They has clear knowledge about present and future prices and cost. Information is available of free of cost. Therefore no seller can sell the commodity the above the equilibrium price.

8) **Absence of selling costs**: under perfect competition there are no advertising costs, sales promotion etc. because all firms produce homogenous product.

FIRM & INDUSTRY

A firm is a fundamental unit which produces and sells goods and services in the economy. The purpose of production is to earn income or maximise profit.

A group of firms that produce the same or closely related products or services constitutes an industry. For example sugar industry in India covers all those firms which produce sugar in the country.

Assumptions

1) All firms produce homogenous products.
2) Firms are of different efficiency.
3) Cost curves of firms many vary each other.
4) All firms sell their products at the same price determined by the demand and supply of the industry so that price of each firm

PRICE & OUTPUT DETERMINATION UNDER PERFECT COMPETITION

EQUILIBRIUM OF FIRM

Explain the price & output determination under Perfect compepetion using TC-TR approach?

Under any market situation a firm is equilibrium it gets maximum profit. There are two approaches to find the profit maximising level of output

1. TC, TR Approach: Under approach firm will in equilibrium when it produce that level of output where difference between TR and TC is the maximum.

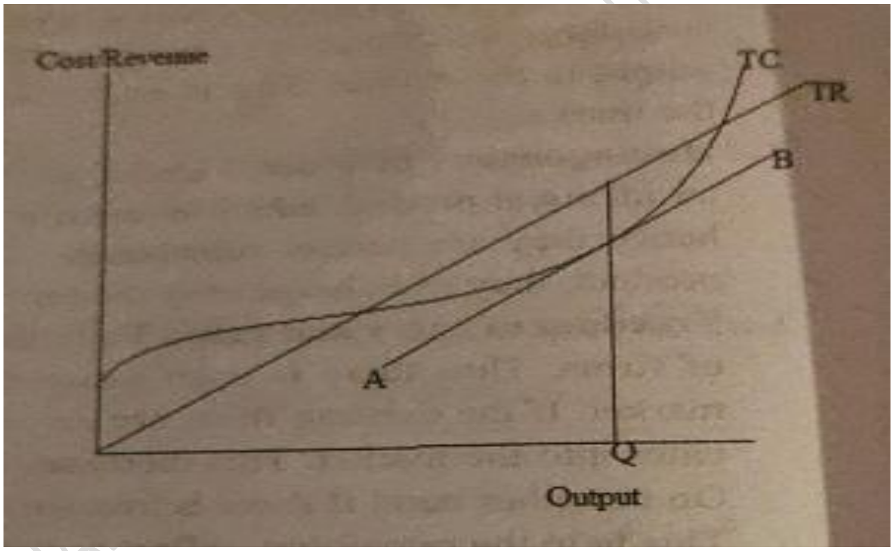

Fig: 1 Price-output determination under perfect competition TC, TR approach

In fig 1 when the firm produces Q level of output the difference between TR and TC is maximum. Hence, it is the equilibrium output. To find the equilibrium output a tangent is drawn to the TC curve which is parallel to TR curve. This is the case in perfect competition.

Explain the price & output determination under Perfect compepetion using MC-MR approach?

2.MC, MR Approach: The general profit maximising condition for a firm under perfect competition are the following

1) **MC=MR.**
2) **MC must cut MR from below**
3) **At the point of equilibrium MC should be rising**

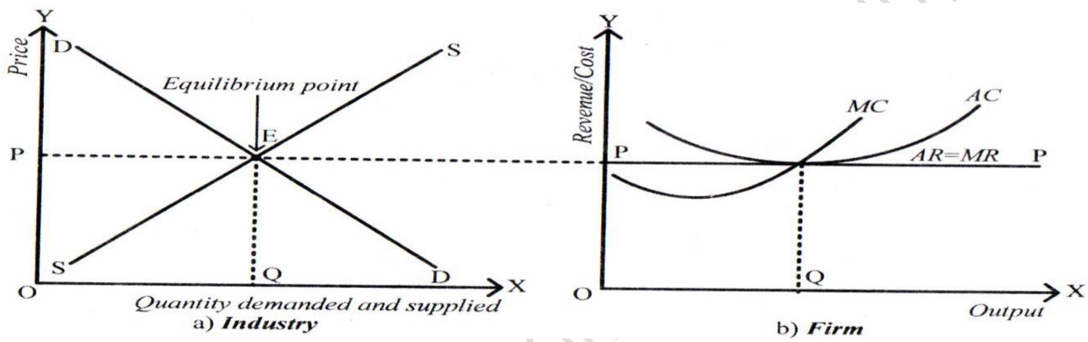

Fig: 2Price-output determination under perfect competition MC, MR Approach

In fig 3panela shows the interaction of DD demands curve and SS supply at point E. Thus at equilibrium point price is OP. Panel B shows the firms demand curve. The firm will have to sell at the prevailing price OP. It may sell more units or fewer units, but can charge OP price only. The firm can neither decrease nor increase the price of the commodity because price is determined by the industry not by the firm. Firm is a price taker not a price maker. **The demand curve of the firm PP is also its average revenue and marginal revenue curve**. **The price is equal to average and marginal revenue because the price is constant.** Any number of commodities can be sold only at the prevailing price. At equilibrium output OQ **MC =MR.** **Thus equilibrium condition is P=AR=MR=MC**

AR CURVE & MR CURVE OF A FIRM UNDER PERFECT COMPETITION

Under perfect competition price of a product is determined for the entire industry by the forces of market demand and market supply. This price is accepted by each firm in the industry. Therefore a seller under perfect competition is called a price taker. A seller can sell any amount of the commodity at this price. Hence the demand curve facing a seller under perfect competition is perfectly elastic. It is a horizontal straight line parallel to the x-axis. If he increases the price he will lose his customers because all the sellers are selling an identical product. If he reduces the price he will face a loss because under perfect competition usually a firm get normal profit.

A seller can sell any amount at the price prevailing in the market. Whether he sells one unit or thousand unit, price will be the same. Since all units of the commodity are sold at the same price, under perfect such firms produce the competition price, MR and AR will be the same and the price line, MR curve and AR curve will be a horizontal straight line parallel to the x-axis. The demand curve AR curve facing a seller under perfect completion is shown below.

In **fig 3** the industry is in equilibrium at point **E** where market demand curve intersect market supply curve. **P** is the market price determined and this price is accepted by a firm.

At this price **P** a firm can sell any amount of the commodity Therefore the demand curve or AR curve is perfectly elastic. **Under any market condition AR curve is the demand curve**.

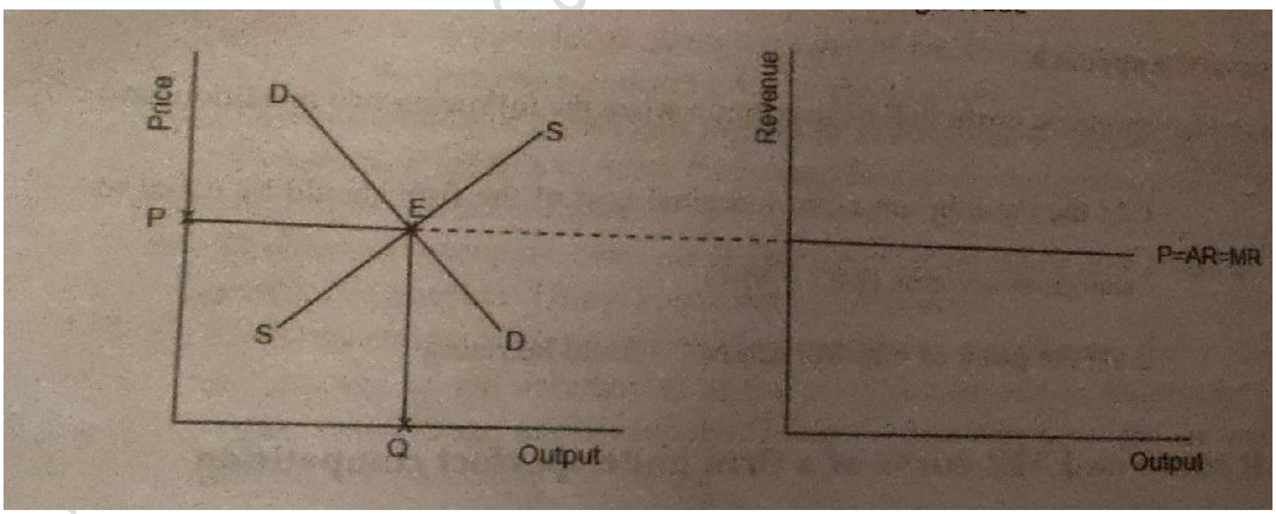

Fig: 3 Equilibrium of Industry **AR, MR & Price**

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State the merits & demerits of Perfect competition.

MERITS	**DEMERITS**
⇒ There are large number of firms so the price of the product will be low ⇒ There will be efficient allocation of scarce resources. ⇒ There is no selling as the product is homogenous.	⇒ There is little choice for consumers as products are homogenous ⇒ There is no restriction for entry of new which is not good to the industry.

QUESTIONS

1. Explain the equilibrium of perfect competition with the help of a diagram?
2. Explain the features of perfect competition?
3. What is equilibrium condition in a perfectly competitive market?
4. Differentiate total revenue ,marginal revenue and average revenue
5. What are two equilibrium conditions under perfect competition?
6. Why there is no selling cost under perfect competition?
7. Explain the equilibrium of firm under perfect competition using TC TR approach?
8. ‘A firm is a price taker under perfect competition’. Explain
9. The price of the products under perfect competition is lower than under monopoly. Why?
10. Make a comparison between perfect competition and monopolistic competition.

MODULE- 3 MONOPOLY

Define monopoly.

State the features of monopoly.

The term monopoly refers to a firm of the product of which ***has no close substitutes in the market.*** There is a single producer for a product and he controls the entire supply of the commodity in the industry. It is very opposite of perfect competition.

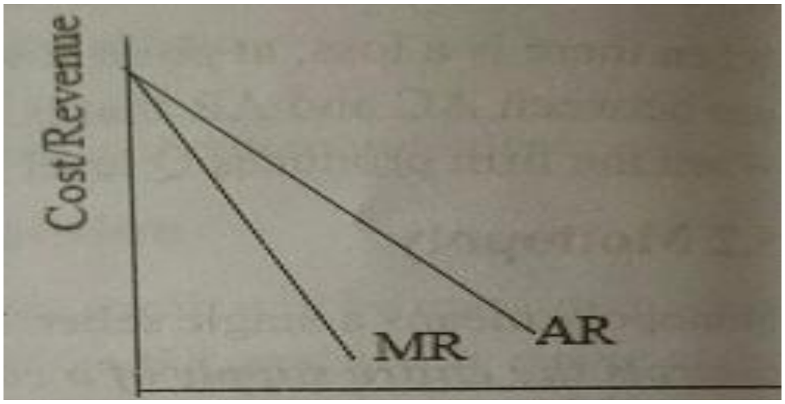
Here the firm is a price- maker because it is only producer of that commodity. The public utilities like railways, post and telegraph, supply of electricity by electricity board etc. are examples of monopoly.

FEATURES OF MONOPOLY

1. There is a single seller but large no of buyers.
2. There will be some restrictions for the entry of new firms.
3. The producer has full control over the price and he is a price-maker.
4. There are no close substitutes for the product.
5. There is price discrimination means selling the same products at different prices to different consumers.

MR CURVE & AR CURVE (DEMAND CURVE) OF A MONOPOLIST

As mentioned earlier a monopolist can sell a larger quantity only at a lesser price. Hence the MR curve of a monopolist will be downward sloping. As MR curve is downward sloping AR curve also will be downward sloping. But the AR curve will be less price elastic as there are no close substitutes in the market. Even if the monopolist changes the price there will not much change in demand.



Explain price & output determination under monopoly using TC-TR approach?

PRICE AND OUTPUT DETERMINATION OF MONOPOLY

1. TC, TR Approach: A firm will be in equilibrium when he gets maximum profit. Profit is maximum when difference between TR and TC is maximum. This situation is shown below.

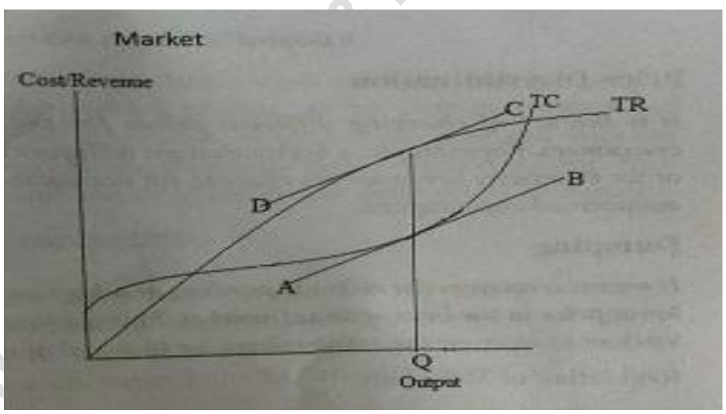


Fig: 2 TC, TR approach

In fig 2 tangents AB and CD are drawn to the TC curve and TR curves in such a way that they are parallel. When these tangents are parallel the gap between TR and TC is maximum. That is the profit is maximum and the firm is in equilibrium and it produces Q level of output.

Explain price & output determination under monopoly using MC-MR approach?

2. MC, MR Approach: Usually a monopolist earn supernormal profit because the monopolist has complete control over the supply of a commodity. Price and output determination is explained in fig 3. The demand curve or average revenue curve is relative elastic and is downward sloping from left to right.

- The MR curve lies below AR curve since average revenue falls as more units of outputs are sold. **The equilibrium level of output is that level of output in which marginal revenue equals marginal cost**.
- The producer will continue producing as long as marginal revenue exceeds marginal cost. At the point where MR is equal to MC, the profit will be maximum and beyond this point he will stop producing.

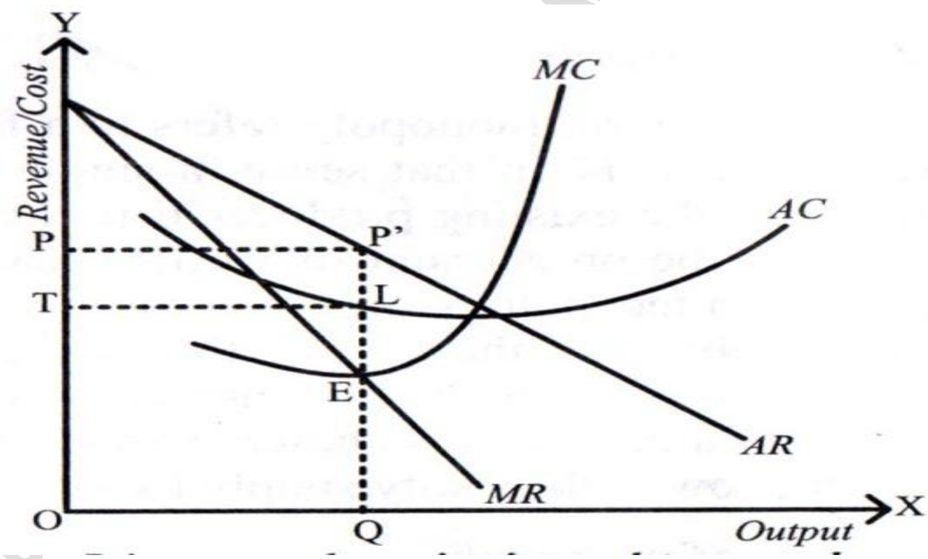


Fig: 3 Price-output determination under monopoly

It can be seen from fig3 that till OQ output, MR is greater than MC but beyond OQ the MR is less than MC. Therefore the monopolist will be in equilibrium at output OQ where MR equals to MC and profits are the greatest. The corresponding price in the figure is OP. It is clear from the diagram at output OQ, while QP is the average revenue, QL is the average cost therefore P’L is the profit per unit. The total profit is equal to P’L profit per unit multiplied by OQ the total output.

Describe the merits & demerits of monopoly?

Merits of Monopoly

→ They are more efficient than smaller firms as they produce at lower costs which increase in output and decrease in AVC.

→ Monopoly firms give huge amount of money which is a source of revenue for the government.

Demerits of Monopoly

→ Normally under monopoly price are higher than perfect competition.

→ A monopoly firm may exploit his labour by paying lower wages.

→ It will lead to inefficient use of scarce resources as a monopolist would produce less and charge high prices to gain more profit.

State the difference between perfect competition and monopoly.

DIFFERENCE BETWEEN PERFECT COMPETITION AND MONOPOLY

Basis of Difference	**Perfect competition**	**Monopoly**
No of firms	Existence of large number of firms	Existence of only one firm
Nature of product	Homogenous products are produced	There is only one firm and only single product
Price policy	There are so many firm and the seller is a price –taker	There is a single seller and he is the price - maker
Elasticity of demand	There is perfect elasticity of demand	Since there is no competition the price elasticity is less
AR&MR	The average and marginal revenue are same	The average and marginal revenue are different

Shape of demand curve	The demand curve is perfectly elastic under perfect competition because the number of firms is large and it is assumed that the product is homogenous. Therefore average revenue curve is parallel to X -axis and AR is equal to MR	AR and MR curve are different from one another .AR curves slopes downward under monopoly where MR curve slopes downward and is below AR curve.

What is price discrimination?

<u>PRICE DISCRIMINATION</u>

It is the act of charging different prices for the same product from different consumers. For example a doctor charges different fees from poor and rich patients or for electricity low rates charged for domestic consumption and high rate for commercial consumption.

<u>DUMPING:</u> It means a monopolist sells his product at a higher price in the home market and lower price in the international market. This may be due to excess stock or outdated stock or to increase the market share or, to avoid competitors.

<u>QUESTIONS</u>

1. What is monopoly? Explain the equilibrium of a monopoly firm?
2. Compare the market situation of perfect competition with monopoly**.**
3. A monopoly firm is in equilibrium where MC=MR? Explain with the help of a diagram?
4. Explain the equilibrium of monopoly under TC, TR approach?
5. Monopoly market will not create efficient utilisation of resources. Why?

6. What is price discrimination? Why a monopolist does practices price discrimination?
7. Explain the merits and demerits of monopoly?
8. Distinguish between Perfect Competition &Monopoly.

MODULE- 3

MONOPOLISTIC COMPETITION

Define monopoly competition?

A monopolistic competition is defined as market structure in which ***each seller produces a differentiated product*** .There are many sellers and the product marketed by one seller can be distinguished from other seller in some form or other. Some of the important methods of product differentiation include trademarks, brand names, size, packing or colour etc.

There are close substitutes for the products under monopolistic competition. The firm have monopoly in their product and at the same time they face competition. **It is a combination of both monopoly and perfect competition that exist in the real world.**

Enumerate the features of monopoly competition?

FEATURES OF MONOPOLISTIC COMPETITION

- ⇒ Large number of buyers and sellers .They are selling similar products but not similar.
- ⇒ The distinct feature of monopolistic completion is product differentiation. The product of one firm differs from another in colour, shape, brand, packing brand etc. Product differentiation has many examples, in case of soaps we have brand as lux, pears lifeboy etc.
- ⇒ There is freedom of entry and exit of firms.
- ⇒ Each firm has partial control over the price of the product.
- ⇒ There is selling cost in monopolistic competition which is incurred by the producer for the promotion of his product. Advertisement expense, wages given to sales representatives etc.

Explain the price & output determination under monopoly competition?

PRICE AND OUTPUT DETERMINATION OF THE MONOPOLISTIC COMPETITION

In monopolistic competition **profits are maximised at a point where marginal revenue is equal to marginal cost.** The price determined at this point is known as equilibrium price and output produced at this point is called equilibrium output. If the marginal revenue is greater than Marginal cost the producer may plan to increase his output. On the other hand, if marginal revenue is less than marginal cost it is advisable to decrease his output .It is profitable for a producer where Marginal Revenue is equal to marginal cost. It can be seen from figure 1 that at output OQ, while OP is the average revenue .QL is the average cost, therefore P'L is the profit per unit. The total profit is equal to P'L profit per unit multiplied by OQ the total output.

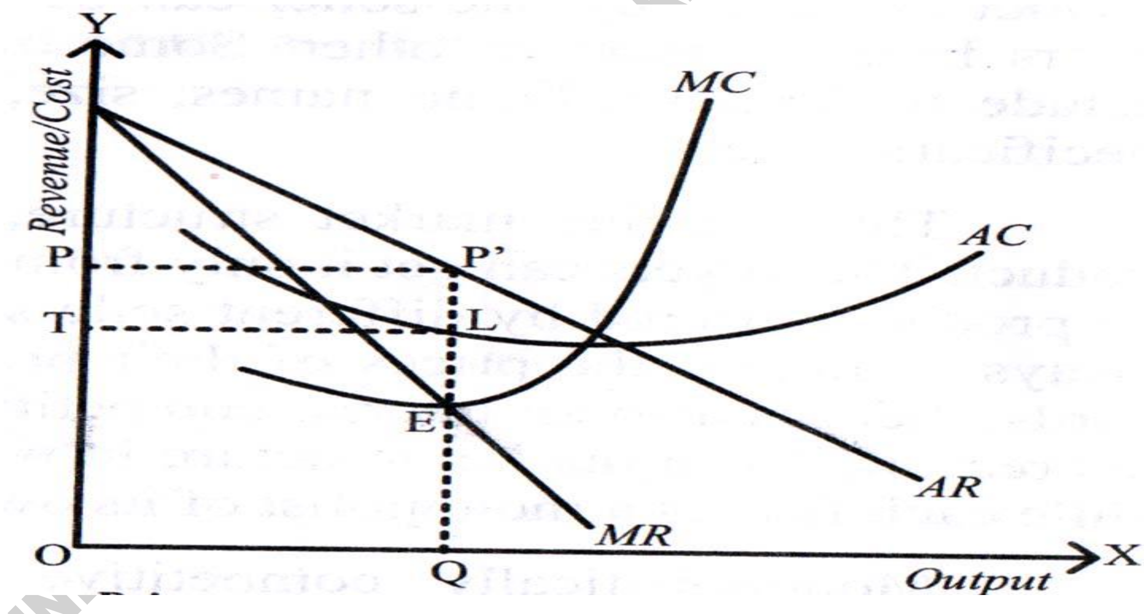


Figure 1.Price-output determination under monopolistic competition

State the merits & demerits of Monopolistic Competition.

Merits of Monopolistic Competition

⇒ There is no restriction for entry of new firms. Therefore no single firm will find themselves with monopoly power.

⇒ Product differentiation will give greater choice and variety to consumers.

⇒ It will provide the products with high quality and service.

Demerits of Monopolistic Competition

⇒ Monopolistic competition is wasteful as the firms don't produce enough output efficiently to lower the average cost and benefit from economies of scale.

⇒ The firms enjoy some kind of monopoly power as far their product is concerned so they will sell their product at higher price.

⇒ The firms spend too much money on advertising their product which will indirectly lead to high price of the product and mislead the consumers.

DIFFERENCE BETWEEN PERFECT COMPETITION & MONOPOLISTIC COMPETITION

Points of Difference	Perfect Competition	Monopolistic Competition
Number of Firms	Large number of firms	Many firms but in comparison to perfect competition there are less firms.
Nature of Product	Homogenous product	Differentiated product
Price Policy	Firm is a price taker	Firm is price -maker
MR & AR	MC=AR=Price	MC<AR
Selling cost	No selling cost because the product is homogeneous	Selling cost is incurred by firms in order to increase their sales.

DIFFERNECE BETWEENMONOPOLY & MONOPOLISTIC COMPETITION

Points of Difference	Monopoly	Monopolistic Competition
Number of Sellers	Single Seller	Large number of sellers
Nature of the product	No product differentiation because there is only one single seller	Product differentiation is a necessary the firm has close substitutes and face strong competition from rivals

Degree of Elasticity	There is less elasticity as there is no close substitutes	High degree of elasticity as there are very close substitutes
Price Discrimination	Price discrimination is possible as there is only one seller for a product	Price discrimination cannot be practised by the seller.
Selling Cost	A very small amount is spend in order to inform the consumers about the product	Huge amount is spend on advertisement in order to increase the sales of the product since there is very close substitutes.

The AR and MR curve of a monopolistic firm is more elastic than under monopoly. Explain your answer with the help of a diagram.

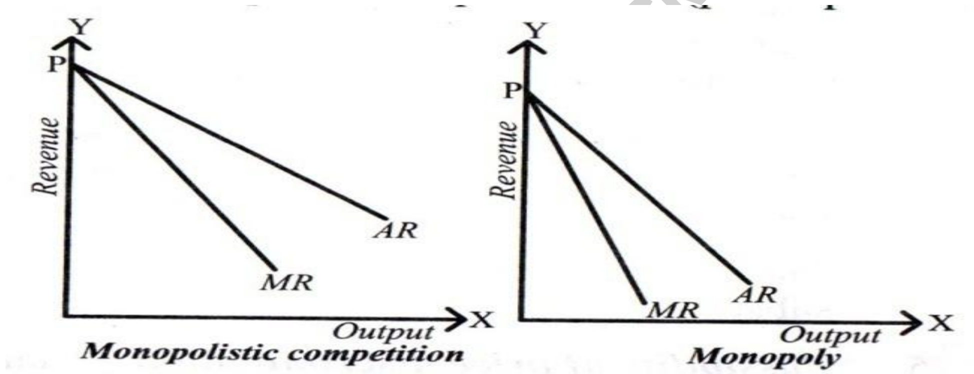


Figure 2.AR &MR curves of Monopoly and Monopolistic competition

It means that in response to a given change in price, the change in price will be relatively more for a monopolistic firm than a monopoly firm. It is because in a monopolistically competitive firm the goods have close substitutes; in a monopoly market goods do not have close substitutes .Goods with close substitutes show higher degree of elasticity of demand than those without close substitutes.

<u>QUESTIONS</u>

1. Explain the features of monopolistic competition? How far it is different from monopoly?
2. Differentiate monopolistic competition and oligopoly.

3. Make a comparison between perfect competition and monopolistic competition.
4. ‘A firm under monopolistic competition will only get normal profit in the long-run’. Substantiate the statement with illustrations.
5. The AR and MR curve of a monopolistic firm is more elastic than monopoly. Explain with the help of as diagram?
6. Explain the equilibrium condition of monopolistic competitive market with the help of a diagram?
7. What is product differentiation?
8. The elasticity under monopolistic competition is higher than that of monopoly. Explain?
9. Bring out the differences in monopoly, monopolistic competition and perfect competition.
10. Explain any 4 features of monopoly? Make a comparison between the demand curves under monopoly and monopolistic competition.
11. What is predatory pricing?
12. a)What do you mean by non-price completion under oligopoly? **(Model Question)**

b) Explain the equilibrium of a firm earning supernormal profit under monopolistic competition. **(Model Question)**

13. With the help of a diagram, explain equilibrium under monopolistic competition**. (S5 Regular Exam)**

MODULE-3
OLIGOPOLY

Define Oligopoly.

Enumerate the features of Oligopoly.

Oligopoly market structure is ***characterized by a few sellers .***The degree of competition in oligopoly structure is less than monopolistic competition, but higher than that in monopoly which has almost no competition.

The main features of an oligopoly market situation are as follows.

⇒ ***There a large number of buyers***

⇒ ***There are only a few sellers***

⇒ ***There are entry and exit barriers***

⇒ ***The product may be homogenous or heterogeneous***

⇒ ***The price and output decision of one firm are highly dependent on those of others.***

In an oligopoly market an individual firm's reaction will cause its competitors to react. Such interdependence is the major characteristic of an oligopoly market. Any reaction of a firm leads to a series of actions and reactions by other firms. Thus before taking any decision for the revision for the price of its product, a firm must carefully consider the potential reactions of its competitors. Pricing in an oligopoly has been explained on the basis of several models. Few important are discussed below.

PRICE & OUTPUT DETERMINATION

Explain the kinked demand curve model of oligopoly?

What happens if a firm cuts price in oligopoly?

KINKED DEMAND CURVE MODEL

The Kinked Demand curve model was developed by Paul M Sweezy in 1939.It explains price rigidity under oligopoly on the basis of following assumptions.

i) If a firm increases its price others will not follow.

ii) If a firm decreases its price others will also do the same.

Usually an oligopoly firm will not enter into a price war and hence price remains rigid.If one firm decreases the price the others will reduce the price. Hence firms demand will not increase but at the same time it will affect their profitability. On the other hand if the firm increases the price, others will not in increase the price and hence it will lose its customers. Therefore a firm in oligopoly **stick to its price**. This kind of behaviour in oligopoly was explained by the kinked demand curve. The lower part of the demand curve is less elastic because a firm cannot gain from a price cut. The upper part of the demand curve is more elastic because there will be substantial fall in demand if there is a price hike. The demand curve in an oligopoly is indeterminate. This is shown on fig1.

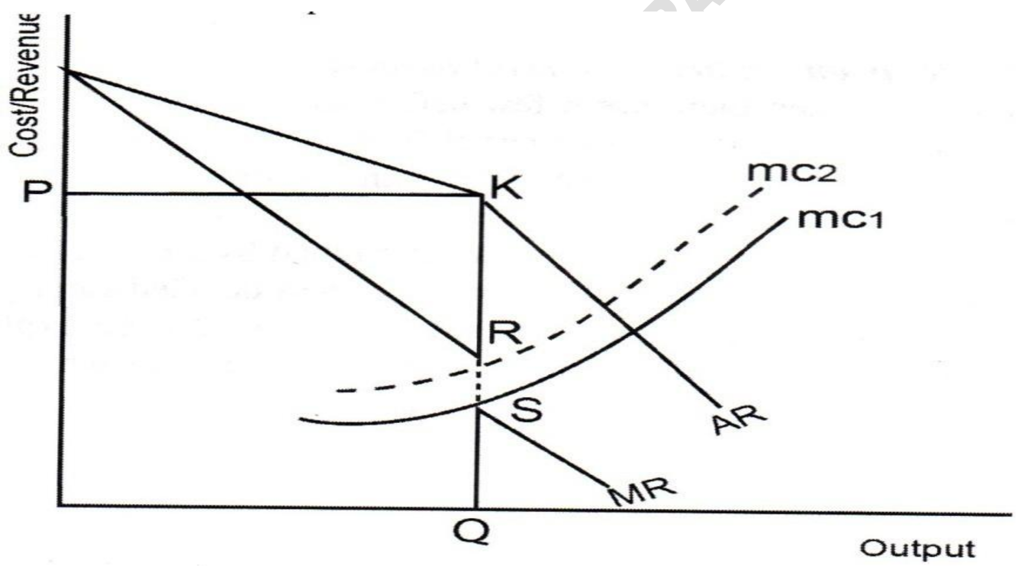


Fig 1.KINKED DEMAND CURVE MODEL

In can be seen from the figure that there is ***a kink at point Kin the demand curve***. This kink in the demand curve or AR curve at point K creates a discontinuity in the MR curve. At the kink MR remain unchanged between points R&S.

Marginal cost curve **mc_1**intersect at point **S** and **OQ** is the equilibrium level of output. Suppose cost increases and MC shifts upwards as **mc_2** there will not be any change in equilibrium price and quantity till MC reaches the point R in the gap.

COLLUSIVE OLIGOPOLY

Define Collusive Oligopoly.

Under oligopoly firms are interdependent and face cut throat competition. To avoid price war and loss, firms enter into an agreement regarding uniform price and output. This agreement is known as collusion. According to Samuelson, "Collusion denotes a situation in which two or more firms jointly set their prices or output, divide the market among them, or make the business decisions".

Collusion helps the firms in preventing uncertainties, prevent the entry of new firms and strengthen the bargaining power of the firms against buyers. Collusion may be formal or tacit in nature. In formal collusion, there will be an explicit agreement among the firms. On the other hand, in tacit collusion firms collide in an informal way. The most common form of explicit collusion is cartel. Cartel is an explicit or formal agreement between firms. This kind of collusion is possible when there are a few sellers and the product is homogenous.

OPEC is an example of a cartel. Under cartel firms involve in price and output fixation, division of profit, market share etc. The main objective of cartel is reducing the supply and raising the price. Price and output under cartel are determined by a central administrative authority. The total profits are distributed in proportion as decided among the members.

PRICE LEADERSHIP

Explain the price leadership model of Oligopoly?

Under collusion, sometimes the dominant firm in the industry sets the price and others follow it. The dominant firm becomes the price leader because of its large size, large economies of scale or better technology.

Barometric price leadership and aggressive price leadership also exist. Under barometric price leadership one firm change the price first and other firms follow it but that may not be the dominant firm. Like that in aggressive price leadership one aggressive firm sets the price first and others follow it.

Tacit Collusion-Governments always take measures against the formation of cartels or formal agreements among the firms because such agreements are against the interest of the consumers. When firms enter into such agreements, they may act as a monopoly and charge a higher price. Therefore, firms inter into tacit collusion. In a tacit or implicit collusion firms do not form a cartel, but informally agree to charge the same price.

NON-PRICE COMPETITION

Define Non-price competition.

What are the different types of Non-price competition under Oligopoly?

Under oligopoly, there is very tight competition between the firms. If the firms try to increase their market share through price competition, it may result in a price war and hence the firms will be the losers. Hence, they resort to non-price competition to increase sales Non-price competition refers to competition between companies that focuses on benefits, extra services, good workmanship, product quality etc.

Non-price competition is a marketing strategy that typically includes promotional expenditures such as sales staff, sales promotions, special orders, free gifts, coupons, and advertising. In other words, it means marketing a firm's brand and quality of products, rather than lowering prices. There are two main branches of non-price competition. They are product differentiation and promotion or advertising, Product differentiation means differentiating the product with respect to packing, colour, smell, quality etc. This helps to attract more customers and increase the market share. Promotion includes advertising, branding, public relations etc. Advertising can be informative or persuasive.

The following are some of the examples of non-price competition.

- **Loyalty card** - Loyalty cards give 'rewards or money back to customers who build up pints. Airlines, supermarkets etc. use loyalty cards to encourage customers to repeat.
- **Subsidized delivery** - Big firms such as Amazon has been successful in offering free delivery for their customers, with a paid subscription. This would give customers an incentive to purchase more because of the waived delivery fee. This works especially well for customers who are regular online shoppers. Supermarkets also offer delivery services for their customers.
- **Offering good after-sales service**: After-sales service is crucial for the reputation and brand loyalty of the firm. In order to retain customers, they would have to provide great after-sales service. Advertising/brand loyalty: Firms spend billions on advertising because repeated exposure to famous brands can make consumers more likely to buy such brands. High brand loyalty can also create barriers to entry.
- **Cultivation of good reviews**: In an online world, good reviews are increasingly important. Therefore, firms have an incentive to encourage happy customers to leave reviews.
- **Coupons and Free Gifts**: Some sellers provide coupons and free gifts along with a product. This encourages more customers to buy from that seller.

In short non-price competition increases the market share of a product. But it increases selling cost and other promotional expenses which in turn increases the average cost of production.

PRODUCT PRICING

The right price of a product is one which keeps all participants of a market- consumers sellers and shareholders- happy. A firm should decide its pricing strategy after considering the degree of competition in the market, price of competitors product, consumers buying capacity etc. Objective of the firm also play an important role in pricing decision because the objectives like profit maximisation and sales maximisation need different pricing strategies.

Another important factor which is to be considered in price fixation is cost of the product. This is the most important factor. Whenever there is a change in cost, the price of the product should be changed. Another factor which influences pricing policy is government policy regarding taxation and subsidy. Thus, it can be concluded that a change in anyone of the determinants of demand of a product necessitates a review of pricing policy .The following are the important pricing strategies.

COST PLUS OR MARKUP PRICING

Under this strategy price is the sum of cost and a profit margin. Usually, average cost is used for this purpose. Therefore, it is also called Average Cost Pricing or Full Cost Pricing. Thus, the price will be **Price = AC + m** Where m is the percentage of mark-up. Mark-up is fixed arbitrarily and in many cases it is determined at 10 per cent. However, it may vary industry to industry and among the different firms in the same industry depending on the availability of substitutes, degree of competition etc. This method is very simple and convenient. However, one important limitation of this method is that it is not suitable when there is tough competition in the market or when there is the threat of entry of new firms.

TARGET RETURN PRICING

This method is similar to cost plus pricing. But the main difference is that cost plus pricing. The profit margin is decided arbitrarily, whereas under this method producer rationally decides the minimum rate of return. Even though the methodology of price determination is the same as the previous case, the margin is decided depending on the experience of the firm, consumer's paying capacity, risk involved and many other factors.

PENETRATION PRICING

When a firm wants to enter into a market which is already dominated by existing firms, the only option is charging a price less than the existing price. This price is called penetration price, Reliance has adopted this kind of a pricing strategy in the mobile phone industry. This method of pricing can be adopted on a short-term basis and its success largely depends on price elasticity of demand.

PREDATORY PRICING

Under predatory pricing the predator, already a dominant firm, sets its prices too low for a sufficient period of time so that its competitors leave the market and others are deterred from entering. This kind of predation is done on the expectation that these present losses (or foregone profits) will be compensated by future gains. In other words, the firm is on the expectation of acquiring exploitable market power after the predatory period, and that profits of this later period will be sufficiently large enough to compensate incurring present losses or foregoing present profits. Predatory pricing usually will cause harm to the consumers and is considered as anti-competitive. It violates competition laws, as it makes markets more vulnerable to a monopoly.

GOING RATE PRICING

This is the strategy of following the prevailing market price instead of a separate pricing strategy of their own. Usually, in this case price is fixed by a dominant firm and others accept it.

Going rate pricing strategy is adopted when the products sold by the sellers are very close substitutes and their cross elasticity is very high. Packaged drinking water is an example. Besides, when new firms are not sure about the shift in demand in favour of them, they also follow this pricing strategy. By adopting this pricing strategy firms can avoid a price war like situation. This kind of a pricing strategy is adopted when the product has reached maturity and has become generic in nature. That is a buyer asks for a product in general rather than a particular brand. An example is mineral water.

PRICE SKIMMING

It is a strategy in which high price is charged at the time of introduction of the product and a lower price during maturity. By experience producers know that a segment of high income consumers wishes to become the first among those who possess the product. They use the product as a status symbol instead of considering its intrinsic value. Hence, the producers charge a very high price from such buyers to skim the market and earn a very high profit. Once the product is established and reached maturity, producers will reduce the profit margin and charge a lower price. This will attract the lower income group.

ADMINISTERED PRICING

Generally, the term administered pricing is used to denote the price charged by the monopolists. Since, a monopolist is a price maker he can charge any price for his product. In other words, administered prices are not fixed by the market mechanism. But in the Indian context, administered pricing means price is fixed statutorily by the government. During certain occasions government fixes the price of certain essential commodities on social interest. Price of cooking gas is an example.

COMPARISON BETWEEN PERFECT COMPETITION, MONOPOLY, MONOPOLISTIC COMPETITION & OLIGOPOLY

Perfect Competition	Monopoly	Monopolistic Competition	Oligopoly
Large number of buyers and sellers	Single seller and large no of buyers	Fairly large number of buyers and sellers	Few sellers and large no of buyers
Homogenous product	Single product	Differentiated product	Homogenous or Differentiated product
Free entry and exit	Closed entry	Free entry and exit	Barriers to entry
Price-taker	Price maker	Price maker	Price maker

The demand curve perfectly elastic	Negatively sloped less elastic demand curve	Downward sloping more elastic demand curve	Indeterminate demand curve
Profits are normal	Supernormal profits	Profits are normal	Supernormal profits
No selling cost	No selling cost	There is selling cost	There is selling cost
AR=MR	AR>MR	AR>MR	AR>MR
No market power	Significant power	Slight market power	Large market power

QUESTIONS

1. Explain the price and equilibrium under oligopoly market?
2. Explain the features of oligopoly market?
3. Differentiate monopolistic competition and oligopoly.
4. What will happen if a firm cut price in an oligopoly market? Why price in oligopoly remains rigid?
5. The demand curve of an oligopolistic firm is indeterminate. Why?
6. What is Collusion? How far it is different from cartel?
7. Explain the equilibrium condition of monopolistic competitive market with the help of a diagram?
8. Explain the kink demand curve model of oligopoly? **(S5 Regular Exam)**
9. With a suitable diagram explain equilibrium price and determination of a firm under oligopoly?
10. What is collusive oligopoly?
11. What is a kinked demand curve?
12. Explain the important features of oligopoly
13. What are the different types of Non-price competition under Oligopoly **(S5 Regular Exam)**
14. Distinguish between monopoly & oligopoly. **(S5 Regular Exam)**

15. Define the following

a) Price leadership

b) Product pricing

c) Mark-up pricing

d) Target Return Pricing

e) Penetration pricing

f) Predatory Pricing

g) Going rate pricing

h) Price skimming

i) Administered pricing