5. Forms of market

Q. 1. A) Choose the correct option:
1) In economic sense, market includes following activities.
Ans. All of above

2) Classification of markets on the basis of place.
Ans. Local market, national market, international market.

(3) Homogeneous product is the feature of this market:
Ans. Perfect competition

(4) Under perfect competition, sellers are:
Ans. Price takers

Q. 2. Give economic terms:
1) The market where there are few sellers.
Ans. Oligopoly

2) The point where demand and supply curve intersect.
Ans. equilibrium point

3) The cost incurred by the firm to promote sales.
Ans. Selling cost

4) Number of firms producing identical product.
Ans. Industry

5) Charging different prices to different consumers for the same product or services.
Ans. Price discrimination.

Q. 3. Complete the Correlation:
1) Perfect competition: Free entry and exit:: Monopoly: Barriers to entry.
2) Price taker: Perfect competition: Price maker:: Monopoly.
3) Single price: Perfect competition :: Discriminated prices : Monopoly

Q. 4. Find the odd word out:
1) Selling cost: Free gifts, Advertisement hoardings, Window display, Patents.
Ans. Patents
2) Market structure on the basis of competition: Monopoly, Oligopoly, Very Short Period market, Perfect competition.
Ans. Very Short Period Market
3) Features of monopoly: Price maker, Entry barriers, Many sellers, Lack of substitutes.
Ans. Many sellers

4) Legal monopoly: Patent, OPEC, Copyright, Trade mark.
Ans. OPEC

Q.5 answer the following:
1) Explain the features of oligopoly.

Ans. (A) Meaning: The term oligopoly is derived from the Greek words 'Oligo' which means few and 'poly' which means sellers. Thus, oligopoly is a market where there are a few firms (sellers) in the market producing and selling either a homogeneous product or a differentiated product. For example, few firms providing mobile services.
(B) Features: The features of oligopoly are as follows: (1) Few firms or sellers: Under oligopoly market, there are few firms or sellers. From these few firms, some firms dominate the market and enjoy a considerable control over the price of a product.
(2) Interdependence: Under oligopoly market. every seller has to be cautious with respect to any action taken by the competing firms. Since there are few sellers in the market, if any firm makes the change in the price, all other firms in the industry also try to follow the same to remain in the competition.
(3) Advertising: Advertising is a powerful instrument in the hands of oligopolist. A firm under oligopoly uses aggressive and attractive advertising campaign with the intention of capturing a large part of the market. The cost incurred on advertising is called selling cost.
(4) Entry barriers: Under oligopoly market, any firm can easily exit from the industry whenever it wants or when there is possibility of losses. On the other hand, a new firm has to face certain natural, technical entry barriers as well as legal entry barriers like government license, patents, etc.
(5) Lack of uniformity: Under oligopoly, there is a lack of uniformity among the firms in terms of their size. Under oligopoly, some firms may be small with respect to its business operations while others may be of bigger size with respect to their business operations.
(6) Uncertainty: Uncertainty is an important feature of oligopoly market. There is a considerable element of uncertainty due to change in demand of products as an effect of advertisements as well as different behaviour patterns shown by various firms. For example, in oligopoly market, rivals may Join hands and co-operate or may try fight each other.

2) Explain the types of monopoly.
Ans. The following are the types of monopoly:
(1) Private monopoly: Private monopoly refers to sole ownership of the supply of goods or services by the private firm or individual. The main objective of private monopoly is earning the maximum profit. For example, Tata Group
(**2) Public monopoly:** Public monopoly refers to sole ownership of the supply of goods or services by the government. The main objective of public monopoly is not to earn the profit but to provide, the maximum welfare to the society. For example Indian Railways.
(3) Legal monopoly: The monopoly that emerges on account of legal provisions like patents trade mark, copyrights, etc. is called legal monopoly, In a legal monopoly, the law forbids the potential competitors to imitate the design, form or shape of a product which is registered with a particular trade mark. If any firm violates the rights of the trade mark, legal action is taken against them. For example, Amul's products.
(4) Natural monopoly: The monopoly created on the basis of natural conditions like climate, rainfall, specific location, etc. is known as natural monopoly. For example, monopoly created by the state of Punjab in the production of wheat due to favourable climatic conditions and fertile soil.
(5) Simple monopoly: It is a type of monopoly, in which a monopolist charge consumer wise, place wise, time wise and use wise uniform price to the same product.
(6) Discriminating monopoly: It is a type of monopoly, in which a monopolist charge consumer wise, place wise, time wise and use wise different prices to the same product. For example, In India, the electricity charges are comparatively less for its domestic use and comparatively high for its commercial use.
(7) Voluntary monopoly: It is a type of monopoly where some monopolists voluntarily come

together and form a group of monopolists to avoid cut-throat competition. This facilitates them to maximise the profit. For example, Organisation of Petroleum Exporting Countries (OPEC).

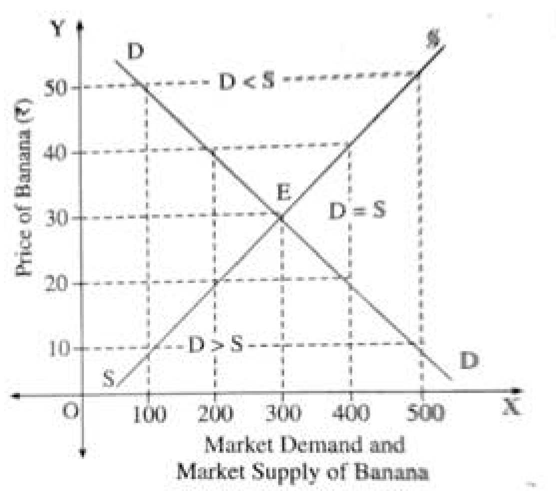
10 Observe the given table /diagram and answer the questions:

Banana [per dozen] in ₹	**[in dozen]**
10	500
20	400
30	300
40	200
50	100

(Table continued here)

[in dozen]	**Between DD and Ss**
100	DD > SS
200	DD > SS
300	DD= SS
400	DD < SS
500	DD < SS

(2)



Q. 7. Answer in detail:
1) Explain the meaning of Monopolistic competition with its features.
Ans. Meaning: Monopolistic competition is very realistic in nature. In this market, there are some features of perfect competition and some features of monopoly acting together. Prof. E. H. Chamberlin coined the concept of monopolistic competition in his book "Theory of Monopolistic Competition" which was published in 1933. According to Chamberlin, "Monopolistic competition refers to competition among a large number of sellers producing close but not perfect substitutes."

Features: (1) Fairly large number of sellers: Although the number of sellers in a monopolistic competition is large, it is still smaller than that in a perfectly competitive market. Since number of sellers is large. each seller has a limited control over the market supply. However, each seller has monopoly over his brand. Thus, in monopolistic competition cach producer enjoys an element of monopoly on one hand and on the other they have to face competition from sellers selling close

substitutes.
(2) Fairly large number of buyers: In monopolistic market, there are fairly large number of buyers. Consequently, no single buyer can influence the price of the product by changing his individual demand.
(3) Product differentiation: Product differentiation is the main feature of monopolistic competition. In monopolistic competition, there are many firms producing differentiated products. In this market, the product of each firm is in some way differentiated from the product of every other firm in the market. Product differentiation may take the form of brand names, trademarks, peculiarity of package or container, shape, quality, cover, design, colour, etc. This means that the product of each firm may find close substitutes and the cross elasticity of demand for each firm's product is very high. For example, mobile handsets, soaps, toothpastes, two wheelers, etc.
(4) Free entry and exit: Under monopolistic competition there is freedom of entry and exit. The new firms are free to enter the market if there is opportunity of earning profit. Similarly, existing firms can exit the market, if they find it difficult to survive due to possibility of losses.
(5) Selling Cost: Selling cost is a peculiar feature of monopolistic competition. Selling cost refers to the cost incurred by the firm to create more demand for its product and thus increase the volume of sales. Selling cost includes expenditure on advertisements, radio and television broadcasts, hoardings, exhibitions, window display, free gifts, free samples, etc.
(6) Close substitutes: In monopolistic competition, goods have close substitutes to each other. For example, different brands of cold drinks, biscuits, tea, etc.
(7) Concept of group: Under monopolistic competition, Chamberlin introduced the concept of 'Group' in place of industry. Industry means the number of firms producing identical products. On the other hand, a 'Group' means a number of firms producing differentiated products which are closely related to each other. For example, group of firms producing medicines, automobiles, etc.

2) Explain the meaning of Perfect competition with its features.
Ans. According to Mrs. Joan Robinson, "Perfect competition prevails when the demand for the output of each producer is perfectly elastic." The features of perfect competition are as follows:
(1) Large number of buyers and sellers: (a) Large number of buyers: In perfect competition, there is a large number of potential buyers buying commodity in market. Their number is so large that a single buyer cannot influence the market price. Thus, in perfect competition, a buyer is a price taker.
(b) Large number of sellers: In perfect competition, there is a large number of potential sellers selling their commodity in the market. Their number is so large that the single seller cannot influence the market price. The price of the product is determined by the interaction of market demand and market supply of a commodity. Thus, in perfect competition, a seller is a price taker.
(2) Homogeneous product: In perfect competition, every firm produces and sells identical products, 1.e. units of a commodity produced by each firm are uniform in respect of their size, shape, colour, quality, etc. Therefore, the commodities sold in perfect market are perfect substitutes to one another.
(3) Free entry and exit: In perfect competition, any firm can freely enter or can exit the market without any restrictions. If there is a hope of profit, a new firm can easily enter the market. Similarly, ir there is possibility of losses, the existing firm can freely exit the market.
(4) Single price: In perfect competition, all units of a commodity have uniform price and it is determined by the equilibrium of the market demand and market supply.
(5) Perfect knowledge of market: In perfect competition, the buyers as well as sellers have perfect knowledge of market conditions such as price of product quality of product, source of supply of product, etc.
(6) Perfect mobility of factors of production: In perfect competition, land has occupational

mobility and other factors of production viz. labour, capital and entrepreneur have occupational mobility as well as geographical mobility.

(7) Absence of transport cost: It is assumed that there is no transport cost in perfect competition. Therefore, uniform price prevails in perfect competition.

(8) No government intervention: Laisses faire policy prevails under perfect competition. It means that there is no government intervention in economic activities.