



# **MARKET STRUCTURE**

## **PERFECT COMPETITION**

# MARKET STRUCRURE

- The place where consumers/buyers and producers/sellers interact is called *market*.
- *Market structure* is the collection of factors that determines how buyers and sellers interact in a market, how prices change and how different levels of production and selling processes interact.
- Market structures include perfect competition, monopoly, monopolistic competition and oligopoly.



# PERFECT COMPETITION

## ○ Definition

The form of market structure with many sellers and many buyers.

## ○ Assumptions

1. There are many number of sellers and buyers of the commodity, so that the actions of an individual cannot affect the price of the commodity.
2. The products of all firms in the market are homogeneous.
3. There is perfect mobility of resources.



## ASSUMPTIONS

4. Consumers, resource owners and firms in the market have perfect knowledge of present and future prices and costs.
5. Firms are price taker, market forces (demand & supply) determine price.
6. Free entry and exit of the firms in the market.



# REVENUE CURVES

## ○ Total Revenue(TR)

Total revenue is the amount of money that a company earns by selling its goods or services.

$$TR = P \times Q$$

## ○ Average Revenue (AR)

Average revenue is the revenue generated per unit of output sold. It equals total revenue divided by output.

$$AR = \frac{TR}{Q}$$



# REVENUE CURVES

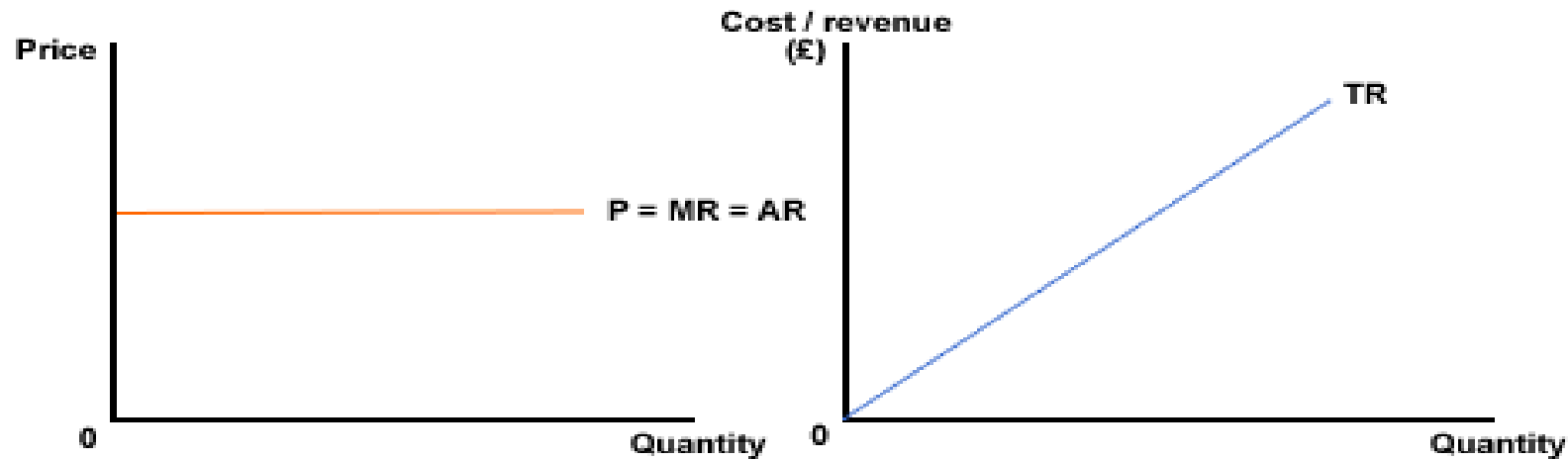
- **Marginal Revenue(MR)**

Marginal revenue is the additional income generated from the sale of one more unit of a good or service. It is the change in total revenue resulting from producing one more unit of output.

$$MR = \frac{\Delta TR}{\Delta Q}$$



# REVENUE CURVES

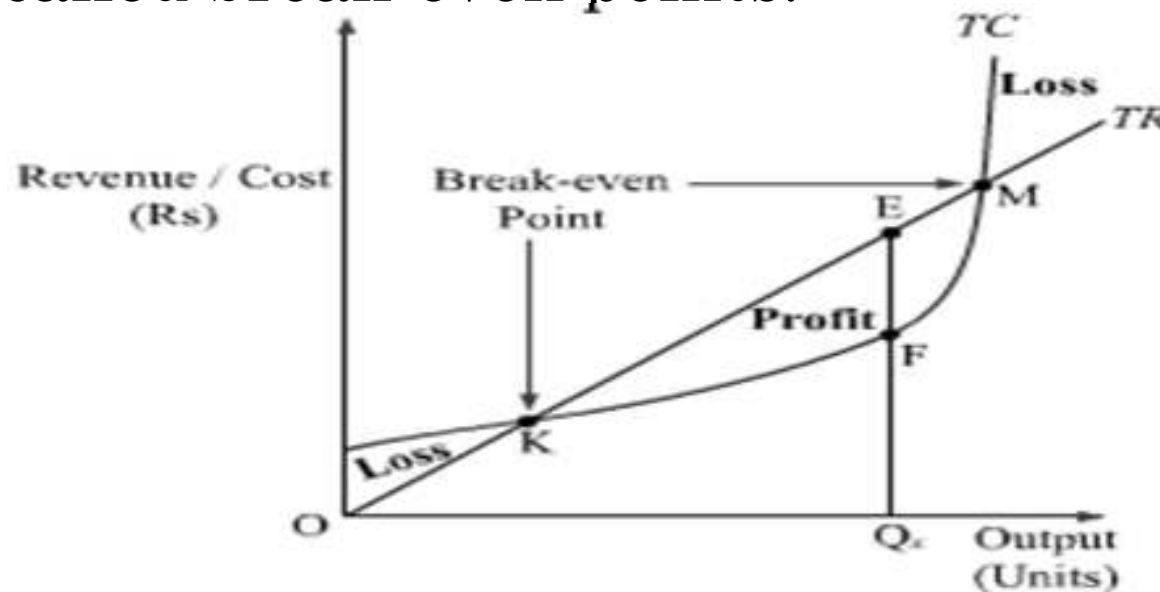


- In case of perfect competition, demand curve is horizontal.
- In case of perfect competition, price is equal to average and marginal revenue.
- For a perfectly competitive firm, the total revenue curve is a straight, positively-sloped line.

# PROFIT MAXIMIZATION

## ○ TOTAL APPROACH

- Profit is maximum when
$$TR > TC$$
- When  $TR < TC$ , a firm is facing loss.
- At points K & M,  $TR = TC$  and Profit = 0, these are called break-even points.



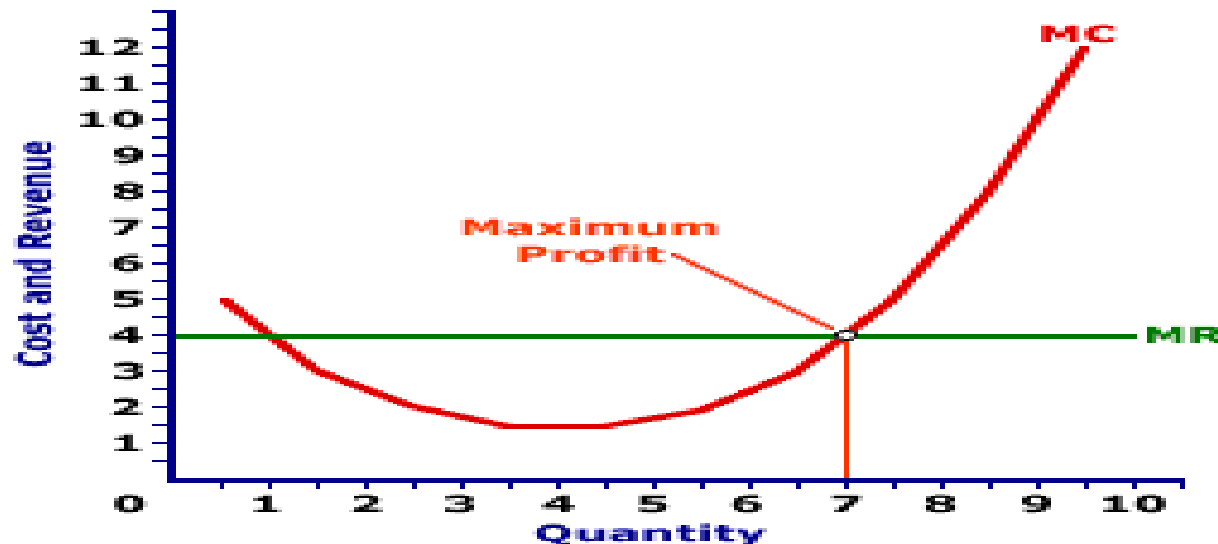


# PROFIT MAXIMIZATION

## ○ MARGINAL APPROACH

Profit is maximum when

- $MR = MC$
- Slope of  $MC >$  Slope of  $MR$
- $MC$  curve should cut the  $MR$  curve from below.



# FIRM & INDUSTRY

- A *firm* is a group of people, with production tools, located in some premises, who transform raw materials into goods & services and sell them.
- A group of firms producing a homogeneous products is called an *industry*.
- The firm and industry are two different entities but co-related.
- A firm is the company that operates within the industry to create homogeneous products.



# CONSTANT COST INDUSTRY

- In the long run, more firms will enter the industry and if factor prices remain constant, the market supply of the commodity will increase until the original market equilibrium price is re-established. This industry is referred to as a constant cost industry.
- Thus, the long-run market supply curve for this industry is horizontal and



# INCREASING COST INDUSTRY

- If factor prices rise as more firms enter a perfectly competitive industry in the long run and as the industry output is expanded, we have an increasing cost industry.
- In this case, the industry long-run supply curve is positively sloped.



# DECREASING COST INDUSTRY

- If factor prices fall as more firms enter a perfectly competitive industry in the long run and as the industry output is expanded, we have a decreasing cost industry.
- In this case, the industry long-run supply curve is negatively sloped.



# LINKS OF VIDEO LECTURES

- [https://www.youtube.com/watch?v=B\\_49lQxwMaM](https://www.youtube.com/watch?v=B_49lQxwMaM)
- <https://www.youtube.com/watch?v=A662LtmI3Vs>
- <https://www.youtube.com/watch?v=RoYzzRCRAPk>
- <https://www.youtube.com/watch?v=REU8ca2Wqs4>
- [https://www.youtube.com/watch?v=Hzw6\\_vUPvgg](https://www.youtube.com/watch?v=Hzw6_vUPvgg)
- <https://www.youtube.com/watch?v=sN-bhe6UfRs>

