MICRO ECONOMICS – II

Sub Code: 18BEC23C
Notes for I BA ECONOMICS Students

Government Arts College(Autonomous)
Coimbatore
By
P.Rathinam

MICRO ECONOMICS- II (18BEC23C)

UNIT – I

Market: Meaning – Market Structure – Equilibrium of Firm and Industry – Perfect Competition – Features – Price and Output Determination Under Perfect Competition – Short Run – Long Run.

UNIT – II

Monopoly: Meaning – Kinds of Monopoly – Degrees of Monopoly – Power – Price and Output Determination under Monopoly – Discriminating Monopoly- Dumping.

UNIT – III

Monopolistic Competition: Meaning – Features – Price and Output Determination under Monopolistic Competition – Definition and Characteristics of Oligopoly – Price and Output Determination under Oligopoly.

UNIT – IV

Theories of factor pricing: Marginal Productivity theory – Rent – Ricardian Theory of Rent – Quasi Rent –Theories of Wages – Subsistence Theory and Wage Fund Theory.

UNIT – V

Concept of Interest – Classical Theory – Lonable Fund Theory and Keynes Liquidity Preference Theory – Concept of Profit – Gross Profit and Net Profit – Theories of Profit – Dynamic Theory of Profit - Innovation Theory of Profit and Uncertainty Bearing Theory of Profit.

- **TEXT BOOKS**

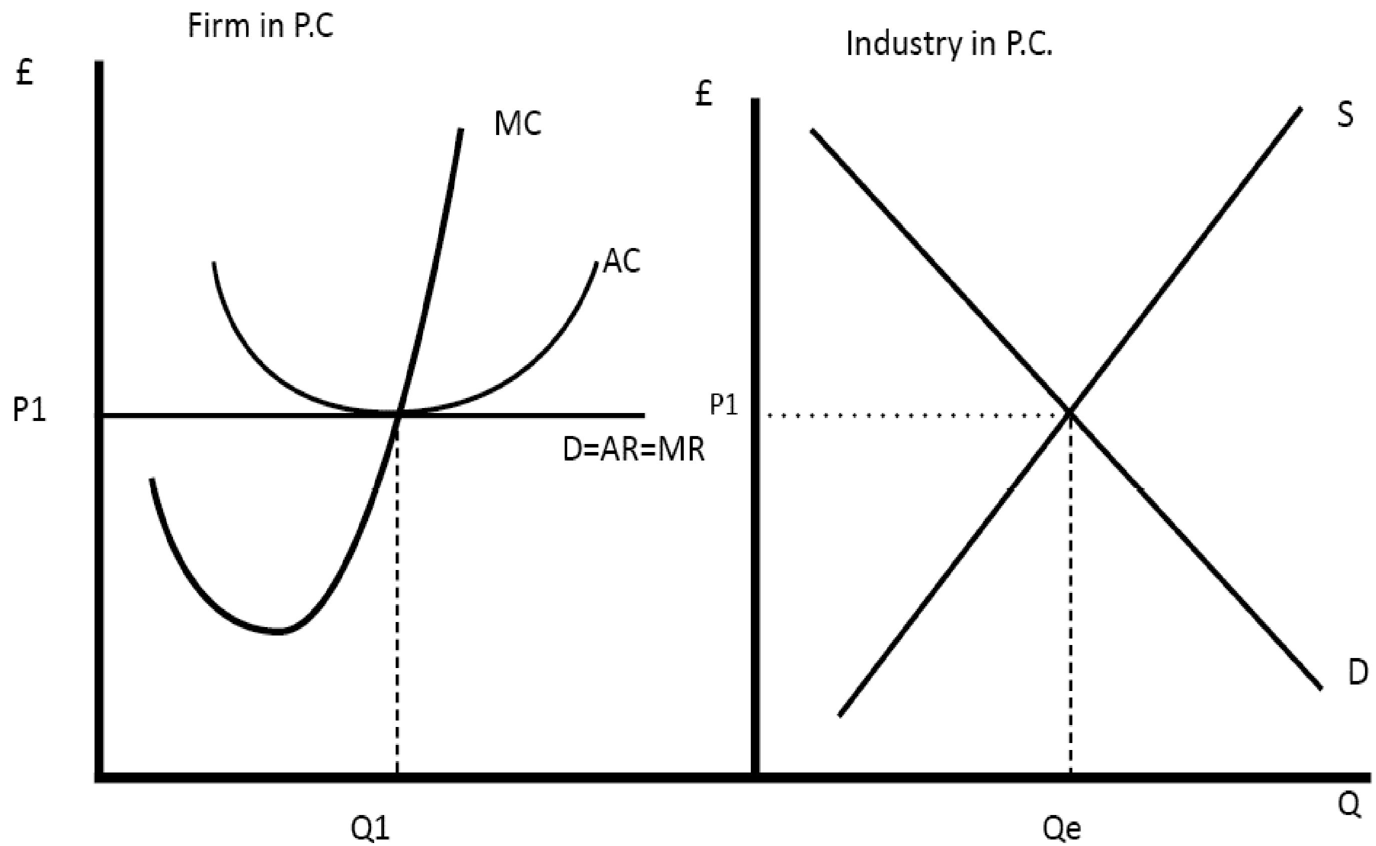
- S. Sankaran, Micro Economics, Margham Publications, Chennai, 2000.
- H.L. Ahuja, Principles of Micro Economics: A New Look Economics Theories, S. Chand and Company, New Delhi, 1996.
- M.L. Jhingan, Micro Economic Theory, Vrinda Publications Ltd. New Delhi, 2002.
- V. Lokanathan, Principles of Economics, Economic Analysis, S. Chand and Co., New Delhi, 2003.

- **Definition of 'Markets'**
- A market is defined as the sum total of all the buyers and sellers in the area or region under consideration. The area may be the earth, or countries, regions, states, or cities.
- The value, cost and price of items traded are as per forces of supply and demand in a market. The market may be a physical entity, or may be virtual. It may be local or global, perfect and imperfect.
- **Market Structure**
- Market structure refers to the nature and degree of competition in the market for goods and services. The structures of market both for goods market and service (factor) market are determined by the nature of competition prevailing in a particular market.

- **Determinants:**
- There are a number of determinants of market structure for a particular good.
- They are:
- (1) The number and nature of sellers.
- (2) The number and nature of buyers.
- (3) The nature of the product.
- (4) The conditions of entry into and exit from the market.
- (5) Economies of scale.

- **Perfect Competition Market**
- A perfectly competitive market is one in which the number of buyers and sellers is very large, all engaged in buying and selling a homogeneous product without any artificial restrictions and possessing perfect knowledge of market at a time.
- **Features of Perfect Competition**
- 1. Large number of buyers and sellers
- 2. Homogenous product is produced by every firm
- 3. Free entry and exit of firms
- 4. Consumers have perfect knowledge about the market and are well aware of any changes in the market.
- 5 All the factors of production, viz. labour, capital, etc, have perfect mobility in the market and are not hindered by any market factors or market forces.
- 6. No government intervention
- 7. No transportation costs

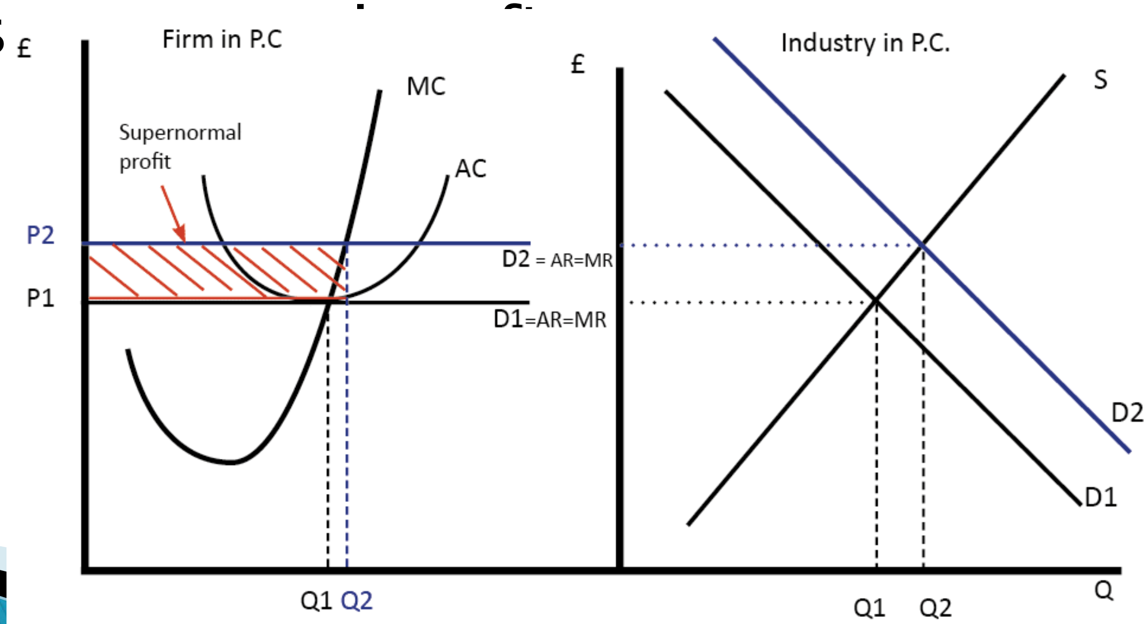
- **Equilibrium of Firm and Industry**
- Firms are price takers
- The price is determined by the market forces: market demand and market supply
- The price for all the firms in the industry is the same
- Price equilibrium of the industry: the point where demand=supply
- The firms will follow this price
- Price=Marginal Revenue=Average Revenue


Firm in P.C
£
MC
AC
P1
D=AR=MR
Q1
Industry in P.C.
£
S
P1
D
Q
Qe

Short Run

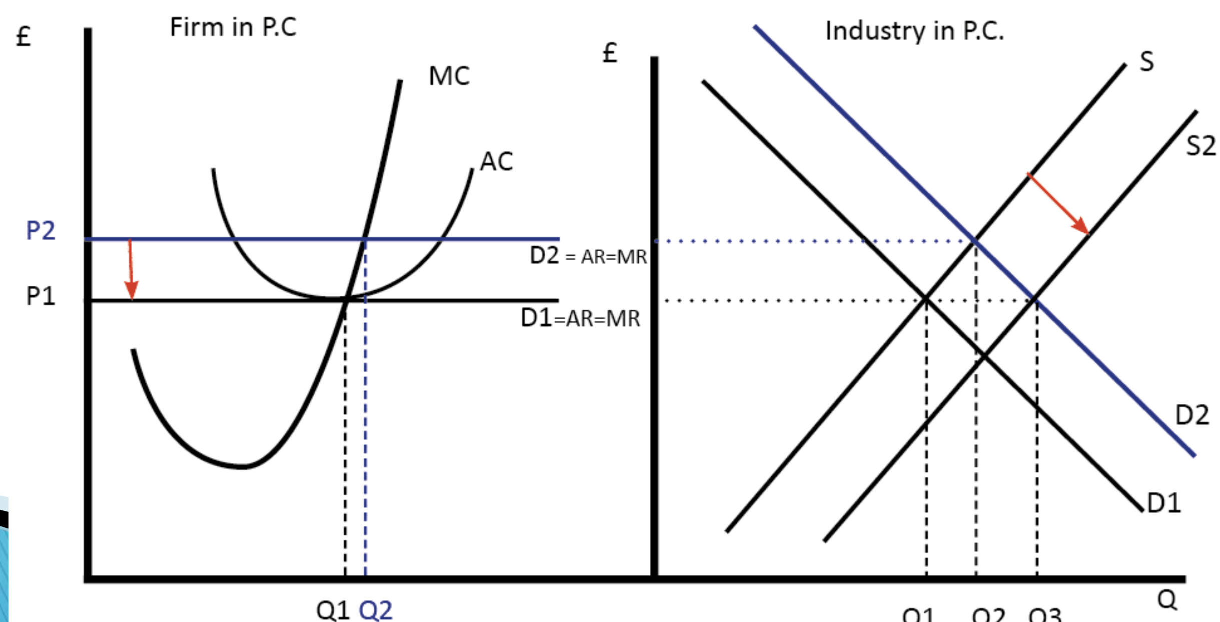
Super normal Profit

- Market demand rises from D1 to D2 causing the price to rise from P1 to P2.
- Due to the rise in price to P2, profits are now maximised at Q2.
- A firms marginal cost (MC) curve is effectively its supply curve
- At Q2, (AR is greater than price) and therefore the firm now makes s



Perfect competition in the long run

- However, the supernormal profit encourages more firms to enter the market.
- New firms enter (supply increases from S1 to S2) until the price falls to P1.
- With price at P1, profits are maximised at Q1 and normal profits are made once again (AR=AC).



References

- https://www.economicsdiscussion.net/perfect-competition/equilibrium-of-the-firm-and-industry-under-perfect-competition/18579
- https://www.economicshelp.org/blog/198/economics/diagrams-of-perfect-competition/
- https://www.economicsonline.co.uk/Business_economics/Perfect_competition.html