SNS COLLEGE OF TECHNOLOGY

(An Autonomous Institution)

MARKET & NORMAL PRICE, TYPES OF MARKET STRUCTURE

Market price (MP) and Normal price (NP)

- Market price is that price which prevails in a market on a single day or on very few days.
- It is a very short-period price which prevails at a particular time.
- In the determination of market price, demand plays an active role while supply is passive. The market price rises or falls with the rise of fall in demand while supply is fixed.

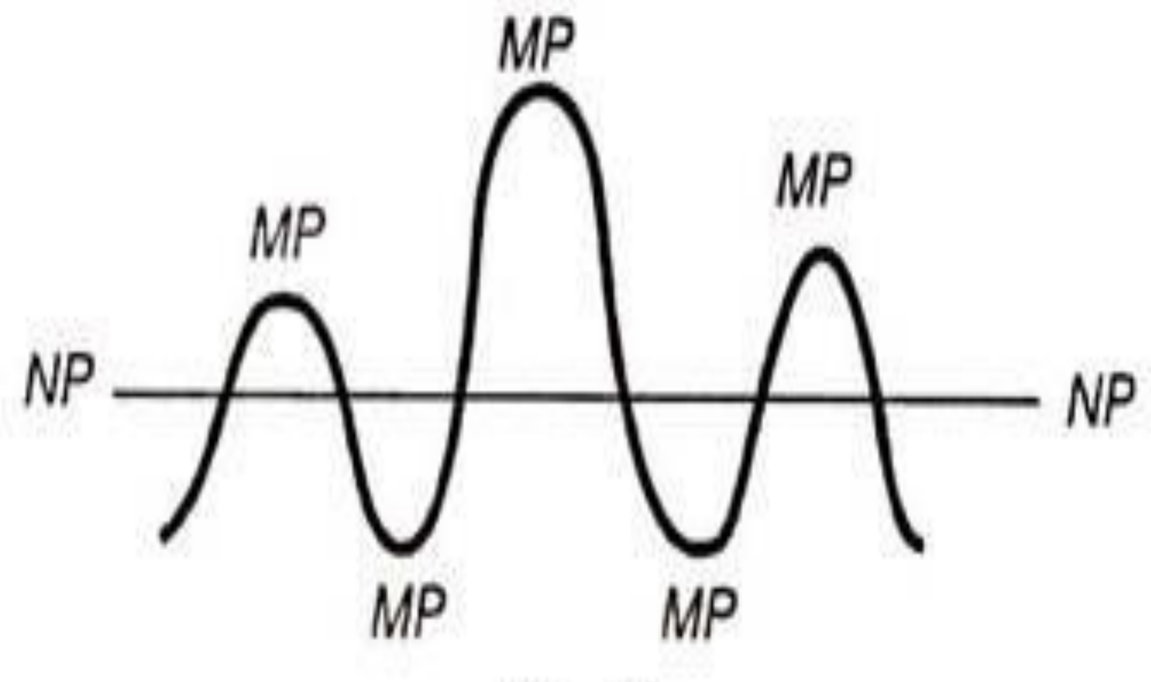


Fig. 12

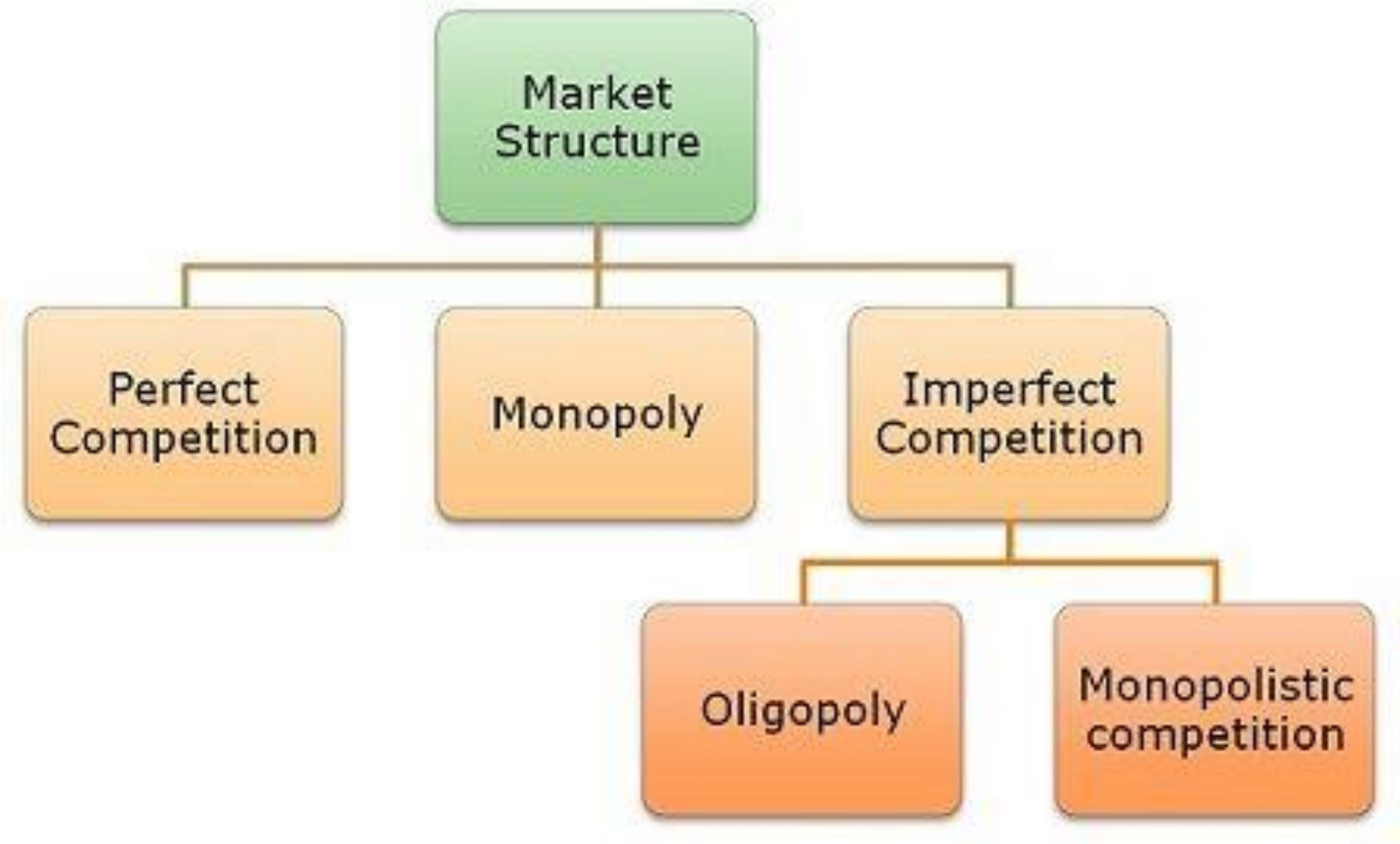
- Normal price is that price which tends to prevail in the long-run.
- It is a price which has a tendency to prevail over a period of time.
- Supply is more active in the determination of normal price because it tends to adjust itself fully to any change in demand.

Market price Vs. Normal price

Difference between market price and normal price

Sr. no	Basis of difference	Market price	Normal price
1	Time	Short period	Long period
2.	Equilibrium between demand and supply	Temporary	Permanent
3.	Influence of demand and supply	Demand is more influential	Supply is more influential
4.	changes	Fluctuates quickly	constant
5.	Real and probable price	Real price	Probable price
6.	Kinds of goods	All goods	Only that goods which can be reproduced
7.	Forces of demand and supply	Influenced by temporary forces	Influenced by permanent forces
8.	Profit and losses	Abnormal profits or losses	Normal profits only

Market Structure



Perfect Competition

- In a perfect competition market structure, there are a large number of buyers and sellers.
- All the sellers of the market are small sellers in competition with each other.
- There is no one big seller with any significant influence on the market. So all the firms in such a market are price takers.
- There are certain assumptions when discussing the perfect competition.
- This is the reason a perfect competition market is pretty much a theoretical concept. These assumptions are as follows,

1. The products on the market are homogeneous, i.e. they are completely identical
2. All firms only have the motive of profit maximization
3. There is free entry and exit from the market, i.e. there are no barriers
4. And there is no concept of consumer preference

Monopolistic Market

- In a monopoly type of market structure, there is only one seller, so a single firm will control the entire market.
- It can set any price it wishes since it has all the market power. Consumers do not have any alternative and must pay the price set by the seller.
- Monopolies are extremely undesirable.
- Here the consumer loose all their power and market forces become irrelevant.
- However, a pure monopoly is very rare in reality.

Oligopoly

- In an oligopoly, there are only a few firms in the market.
- While there is no clarity about the number of firms, 3-5 dominant firms are considered the norm. So in the case of an oligopoly, the buyers are far greater than the sellers.
- The firms in this case either compete with another to collaborate together, They use their market influence to set the prices and in turn maximize their profits.
- So the consumers become the price takers. In an oligopoly, there are various barriers to entry in the market, and new firms find it difficult to establish themselves.

Monopolistic Competition

- This is a more realistic scenario that actually occurs in the real world. In monopolistic competition, there are still a large number of buyers as well as sellers. But they all do not sell homogeneous products.
- The products are similar but all sellers sell slightly differentiated products.
- Now the consumers have the preference of choosing one product over another.
- The sellers can also charge a marginally higher price since they may enjoy some market power. So the sellers become the price setters to a certain extent.
- For example, the market for cereals is a monopolistic competition. The products are all similar but slightly differentiated in terms of taste and flavours. Another such example is toothpaste.

THANK YOU