SES'S L.S.RAHEJA COLLEGE OF ARTS AND COMMERCE

Course: Economics II Unit: IV Prepared by: Rahul Dandekar

Important Concepts

1) Perfect competition

The Perfect Competition is a market structure where a large number of buyers and sellers are present, and all are engaged in the buying and selling of the homogeneous products at a single price prevailing in the market.

2) Normal profit

Normal Profit exists when total revenue, TR, equals total cost, TC. Normal profit is defined as the minimum reward that is just sufficient to keep the entrepreneur supplying their enterprise. In other words, the reward is just covering opportunity cost - that is, just better than the next best alternative.

3) Supernormal profit

If a firm makes more than normal profit it is called super-normal profit. Supernormal profit is also called economic profit, and abnormal profit, and is earned when total revenue is greater than the total costs.

4) Sub-normal profit

If a firm makes less than normal profit it is called sub-normal profit. Sub-normal profit is also called as loss, and is incurred when total revenue is less than the total costs.

5) Shut down point

A shutdown point is a level of operations at which a company experiences no benefit for continuing operations, and therefore decides to shut down temporarily (or in some cases permanently). It results from the combination of output and price where the company earns just enough revenue to cover its total variable costs. The shutdown point denotes the exact moment when a company's (marginal) revenue is equal to its variable (marginal) costs - in other words, it occurs when the marginal profit becomes negative.

6) Firm

Firm is a unit of production that employs factors of production (or inputs) to produce goods & services under given state of technology. It is an independently administered business unit.

7) Industry

Industry is a group of related firms. The relationship between the firms may be either based upon product or process criterion, e.g. dairy industry or food processing industry etc. The concept of industry is helpful to government and businessmen to formulate their policies.

8) Monopoly

The word monopoly has been derived from the combination of two words i.e., 'Mono' and 'Poly'. Mono refers to a single and poly to control. Monopoly market is said to exist when one firm or a single firm is a sole producer or seller of a product in a market which has no close substitutes.

9) Monopolistic Competition

Monopolistically competitive market is the market which has some characteristics of perfect competition and some of monopoly. Even though there are many sellers under monopolistic competition, each seller has its monopoly but still there is a competition due to product differentiation.

10) Product differentiation

Product differentiation is one of the characteristics of monopolistic competition. Products are close substitutes of each other due to small differences in them. In case of products like soaps, garments, tooth paste etc. variety of products are available but each product is different from another due to various factors.

11) Production cost

It refers to the total expenses incurred to produce goods and services. They are in the form of rent wages interest and profit. It also includes depreciation and payment for their inputs which are not normally included in the above mentioned payments. Thus expenditure incurred to produce and reach commodity to the retail shop is called production cost.

12) Selling cost

Close substitute products are available in monopolistic competition, firms have to spend money for increasing sale of their product in the market. This cost is called as selling cost. It includes all expenditures of the firm which can increase their sale. It is in the form of newspaper advertisement, hoardings, exhibitions, distribution of free samples, discounts offered on products etc.

13) Excess capacity

Excess capacity is created under monopolistic competition the equilibrium of a firm under monopolistic competition is attained at a less than optimum level of output. This means that the resources are not fully utilised and therefore this underutilisation of existing capacity leads to excess capacity.

Important Questions

1) Discuss features of perfect competition.
2) Discuss features of monopoly.
3) Discuss features of monopolistic competition.
4) Explain short run equilibrium of firm under perfect competition.
5) Explain short run equilibrium of firm under monopoly.
6) Explain short run equilibrium of firm under monopolistic competition.
7) Explain long run equilibrium of firm under perfect competition.
8) Explain long run equilibrium of firm under monopoly.
9) Explain long run equilibrium of firm under monopolistic competition.

10) Explain Excess capacity under Imperfect competition

11) Explain concept of Selling cost.

12) Discuss wastages under monopolistic competition.