

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

Course: Business Economics II

Unit: I

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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.

Important Questions

- 1) What is perfect competition? Explain its features in detail.
- 2) Explain the short run equilibrium of the firm under perfect competition.
- 3) Discuss the long run equilibrium of the firm under perfect competition.
- 4) What is monopoly? Explain features of monopoly in detail.
- 5) Define monopoly. Discuss the various sources of monopoly power.
- 6) Explain the short run equilibrium of a monopoly firm in detail.
- 7) Explain the long run equilibrium of a monopoly firm in detail.
- 8) Write short note on Shut Down Point of the firm under perfect competition.