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

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

Important Concepts

1) 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.

2) 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.

3) 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.

4) 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.

5) 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.

6) Oligopoly

Oligopoly is a market structure with a small number of firms, none of which can keep the others from having significant influence. The concentration ratio measures the market share of the largest firms. A monopoly is one firm, duopoly is two firms and oligopoly is two or more firms. There is no precise upper limit to the number of firms in an oligopoly, but the number must be low enough that the actions of one firm significantly influence the others.

7) Collusive oligopoly

Collusive oligopoly is a form of market in which few firms form a mutual agreement to avoid competition. They form a cartel and fix the output quotas and the market price. Leading firm in the market is accepted by the cartel as a price leader. All the firms in the cartel accept the price as fixed by the price leader.

8) Non-collusive oligopoly

Non-collusive oligopoly is a form of market in which few firms. Each firm has its price and output policy is independent of the rival firms in the market. The entire firms enable to increase its market share through competition in the market.

9) Price rigidity

Price stickiness or sticky prices or price rigidity refers to a situation where the price of a good does not change immediately or readily to the new market-clearing price when there are shifts in the demand and supply curve.

10) Cartels

A cartel is an organization created from a formal agreement between a group of producers of a good or service to regulate supply in an effort to regulate or manipulate prices. In other words, a cartel is a collection of otherwise independent businesses or countries that act together as if they were a single producer and thus are able to fix prices for the goods they produce and the services they render without competition.

11) Dominant firm leadership

This refers to a type of leadership in which only one organization dominates the entire industry. Under dominant price leadership, other organizations in the industry cannot influence prices. The dominant organization uses its power of monopoly to maximize its profits and other organizations have to adjust their output with the set price.The interests of other organizations are ignored by the dominant organization. Therefore, dominant price leadership is sometimes termed-as partial monopoly. Price leadership by the leading organization is most commonly seen in the industry.

12) Low cost firm leadership

In the low-cost price leadership model, an oligopolistic firm having lower costs than the other firms sets a lower price which the other firms have to follow. Thus the low-cost firm becomes the price leader.

13) Barometric price leadership

Refers to a leadership in which one organization declares the change in prices at first and assumes that other organizations would accept it. The organization does not dominate others and need not to be the leader in the industry. Such type of organization is known as barometer. This barometric organization only initiates a reaction to changing market situation, which other organizations may follow it if they find the decision in their interest. On the contrary, the leading organization has to be accurate while forecasting demand and cost conditions, so that the suggested price is accepted by other organizations.

14) Aggressive price leadership

Implies a leadership in which one organization establishes its supremacy by threatening the organizations to follow its leadership. In other words, a dominant organization establishes leadership by following aggressive price policies and forces other/organizations to follow the prices set by it.

Important Questions

1) Discuss the features of monopolistic competition.
2) Write a note on product differentiation.
3) Explain the short run equilibrium of a firm under monopolistic competition.
4) Discuss the long run equilibrium of a firm under monopolistic competition.
5) Bring out distinguish between production cost and selling cost.
6) Discuss the role of advertising with advantages and disadvantages.
7) Write a note on wastages under monopolistic competition.
8) Discuss the features of oligopoly market.
9) Discuss kinky demand curve under oligopoly.
10) Explain the collusive oligopoly models.
11) Write a note on cartel.
12) What is price leadership? Explain its various types.
13) Explain non-collusive oligopoly model.