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MODULE 5

Market and Price Determination Including Forms of Market

WHAT IS A MARKET IN ECONOMICS?

In economics, a market refers not to a physical place but to a system or arrangement where buyers and sellers interact to exchange goods and services, directly or through intermediaries.

Example: The stock market, vegetable market, and online platforms like Amazon are all markets.

PRICE DETERMINATION: THE BASICS

Price is determined by interaction of demand and supply.

Equilibrium Price:
It is the price at which quantity demanded equals quantity supplied.

Equilibrium Quantity:
It is the quantity bought and sold at the equilibrium price.

Graph: Price Determination
The point where the demand curve (downward sloping) and supply curve (upward sloping) intersect is the equilibrium.
Left of this point: shortage (demand > supply)
Right of this point: surplus (supply > demand)

Example: If mangoes are in season and supply is high, prices drop. If demand increases for mangoes in off-season, prices rise.

TYPES/FORMS OF MARKET

Market Type	No. of Sellers	Nature of Product	Price Control	Entry/Exit
Perfect Competition	Many	Homogeneous	No control	Free entry/exit
Monopoly	One	Unique	High control	Barriers exist
Monopolistic Competition	Many	Differentiated	Some control	Easy entry/exit
Oligopoly	Few	Identical/Differentiated	Some control	Barriers exist

Perfect Competition
Large number of buyers and sellers, homogeneous products, price taker firms.

Monopoly
Single seller, unique product, high barriers to entry, price maker.

Monopolistic Competition
Many sellers, product differentiation, some control over price.

Oligopoly
Few sellers, interdependence, price rigidity common.

FACTORS INFLUENCING PRICE DETERMINATION

Demand Side Factors:
- Consumer preferences
- Income levels
- Price of substitutes
- Future expectations

Supply Side Factors:
- Cost of production
- Input prices
- Technology
- Government policies

SHIFTS IN DEMAND AND SUPPLY

Increase in Demand → Price rises

Increase in Supply → Price falls

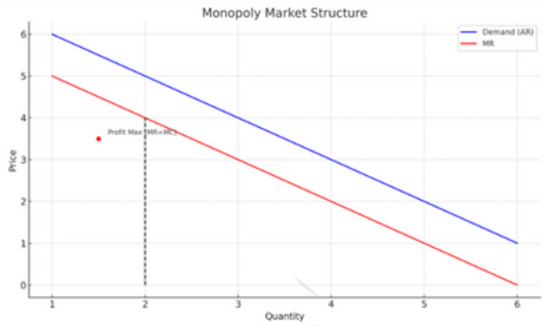
Summary Table

Concept	Meaning	Example
Equilibrium Price	Price at which D = S	₹30 per kg for tomatoes
Perfect Competition	Many sellers, same product	Wheat in mandi
Monopoly	One seller, unique product	Indian Railways
Monopolistic Competition	Many sellers, brand differentiation	Toothpaste market
Oligopoly	Few sellers, price rigidity	Car or telecom sector

Graph: Price Determination

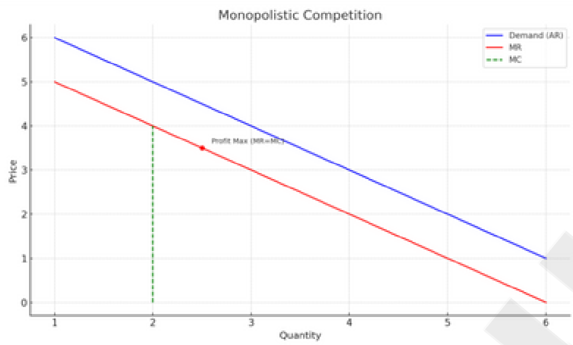
This graph shows how equilibrium price and quantity are determined by the intersection of demand and supply curves.

Graph: Monopoly Market



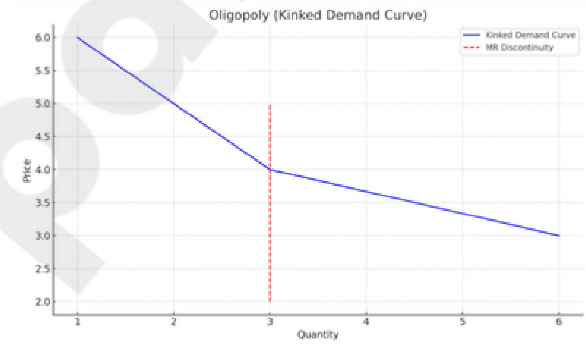
The Monopoly graph shows downward-sloping demand and MR curve. Profit is maximized where MR = MC.

Graph: Monopolistic Competition



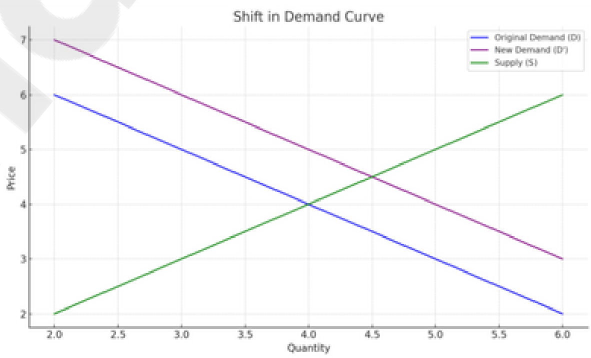
This graph illustrates product differentiation and short-run equilibrium in monopolistic competition.

Graph: Oligopoly (Kinked Demand Curve)



The kinked demand curve shows price rigidity. Firms do not increase prices fearing loss of customers.

Graph: Shift in Demand Curve



This graph shows an increase in demand from D to D', leading to a rise in equilibrium price and quantity.

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