International Journal of Innovative Research in Computer Science & Technology (IJIRCST)
ISSN: 2347-5552, Volume-10, Special Issue-6, June-2022
Innovative Projects 2022
Organized by Presidency University, Bangalore, India

Introduction to Forms of Market and Price Determination

Dr. Mounica Vallabhaneni
Assistant Professor, Department of Commerce And Economics, Presidency University, Bangalore, India,
Email Id-mounicav@presidencyuniversity.in

ABSTRACT:

Market and price determination are essential economic principles that influence how buyers and sellers act, how resources are distributed, and how an economy as a whole operates. An overview of market forms, price determination, and their importance in economic research are given in this chapter. The quantity of buyers and sellers, the level of market power, and the degree of product diversification serve to distinguish the various market structures, such as perfect competition, monopoly, oligopoly, and monopolistic competition. Each market structure has unique traits that affect the degree of competition, price options, and market results.

KEYWORDS:

Buyers Sellers, Imperfect Competition, Monopolistic Competition, Market Perfect, Perfect Competition.

I. INTRODUCTION

In our everyday speech, we always say market. However, since the term market has a variety of meanings, we must comprehend it in order to grasp where the commodities are bought and sold in economics. Market in economics refers to a group of buyers and sellers who participate in the trade of commodities. The buyer and seller may be dispersed domestically or internationally, but communication is required. Economists understand by the term market, not any specific location where goods are bought and sold, but the entirety of any area in which buyers and sellers are in such free interaction with one another that the prices of the same goods tend to equality easily and quickly. The contemporary perspective on the market is largely acknowledged. It market implies the entire area over which buyers and sellers are in such contact with one another, directly or through middlemen, that the price of the commodity in one part influences it in the other parts of it, according to the contemporary definition of market[1], [2].

Market Classification

1. Considering Area

- **a.** A local market is one that is located in a specific village or locality.
- **b.** Perishable commodities typically have a local market.
- **c.** Regional market. A market that serves a specific region is referred to as a regional market. Typically, regional markets exist for large items like bricks and stones.
- **d.** National market. This term describes a market that is present throughout the entire nation.
- **e.** In general, national markets exist for commodities like wheat, rice, etc.
- **f.** International market. A market is considered to be international when it is global in scope. Generally speaking, there is a global market for precious metals like gold, silver, etc.

2. Based on Time

- **a.** Very short period market. In a very short period, supply cannot be raised or lowered to match demand. Vegetables, fruits, and other products are examples of relatively short-term marketplaces.
- **b.** Short period. A short period market is one during which the production rate fluctuates.
- **c.** Long period. A long period is a length of time during which the supply of the good can be altered in response to the demand environment. Long time spans a number of years.

3. Competition-Related Classification

- **a.** A perfect market is one in which there is ideal competition.
- **b.** A market is deemed imperfectly competitive if one or more buyers and sellers' actions may be shown as having an impact on price.

Perfect competition's meaning:

When there are numerous buyers and sellers for the product, the market is said to be excellent. Because the products are uniform, people don't mind buying a good from M/s ABC or M/s XYZ. It suggests that the goods produced by the various businesses are either perfect dupe of one another or are the same. The firms can enter and exit at any time. The buyers and the sellers are both well aware of the market circumstances. Any vendor may sell to any buyer, and vice versa. Prices tend to be consistent across the market. Competitive businesses may experience extraordinary earnings in the near term and losses overall. Long-term, nevertheless, they will only be able to accept typical profits. In a perfect market, only efficient businesses can exist. It should be obvious from the aforementioned characteristics that perfect markets don't exist in reality. It is a fictitious circumstance. This is true because the presumptions upon which the competitive market model is built never hold true in reality. Despite these drawbacks, the competitive market theory offers a useful tool for comprehending the makeup of other markets[3], [4].

It should be highlighted that the primary requirement for perfect competition is the availability of a single, consistent price in the market. The dynamics of supply and demand in the market determine this uniform pricing. Each company is required to accept the price set by the market. As a result, the price line also known as the demand curve or average revenue curve is wholly elastic. Even if total supply and demand determine this price, all businesses operating in a perfect market have profit maximization as their primary objective. Each company only aims to increase its earnings; no other goals are pursued. We must thoroughly comprehend this market structure's elements in order to comprehend it.

II. DISCUSSION

Perfect Competition In a market with perfect competition, there are many buyers and sellers, and everyone is fully informed about the state of the market. Since all sellers sell the same goods in this market, the goods are homogeneous. Because both buyers and sellers are price takers, the market price is unaffected by them. Optimal competition encourages effectiveness and distributive fairness. Monopoly In a monopoly market, there is only one producer or seller who has complete control over the flow of a good or service. A monopolist can set prices and limit output because they have a sizable amount of market power. Competition is thwarted by entrance barriers such as patents, laws, or ownership of vital resources. Monopolies might result in higher costs and a smaller surplus of consumers. Oligopoly In an oligopoly market, a small number of producers or sellers hold the majority of the market share. In an oligopoly, one firm's activities can directly affect how other firms behave. Oligopolies can display various levels of rivalry, from collusive behaviour such price-fixing to ferocious rivalry. The car and airline sectors are two examples of oligopolistic markets. Monopolistic Competition A market system characterized by a large number of buyers and sellers, but with only minimal product differentiation between each seller's offerings. Branding, promotion, or product features can be used to differentiate products from one another. Sellers have some degree of market power and some degree of pricing control in monopolistic competition. In this market structure, the barriers to entry and exit are comparatively low[5]–[7].

Competition's Perfect Features

1. There are Many Sellers: In a market with ideal competition, many sellers exist. Each seller sells so little due to the enormous number of vendors that no one is able to have an impact on the market price.

2. Large number of Purchasers: In a similar vein, purchasers are numerous. Each buyer makes such small purchases that none of them can have an impact on the market price. When there are millions of buyers on the market, it is only reasonable that none of them will be powerful enough to affect the price in his favor.

3. Homogeneous Product: The items provided by a large number of sellers must be identical or homogeneous in the perspective of the customers. This is a crucial component of a perfect competitive market. In this case, homogeneity does not imply that the products are identical in every way. They are exact counterparts to one another. In other words, the price of one significantly affects the price of the other. As a result, the product is homogeneous, and no vendor is permitted to set a price that is even marginally higher than the current market rate. The merchant will lose all of his customers if he increases the pricing. Since there are numerous businesses participating in the market, no one of them has any real power to affect prices.

4. Free admission and Departure for Businesses: In a market with perfect competition, businesses should have total freedom to enter or leave the sector as they see fit. In the same way, businesses might leave the industry if they start to lose money. Businesses who can supply at the standard price enter the market, while those that are ineffective and cannot do so are losing money. They have the option of leaving the market.

5. Ideal Market Knowledge: Perfect market knowledge exists between buyers and sellers in ideal competition. Due to perfect information, ideal competition does not require any expenditures or advertising. The vendors also have complete knowledge about prospective sales at different pricing points. In other words, both buyers and sellers are completely aware of the price. The overall supply and demand are balanced at this price, sometimes referred to as the market-clearing price.

6. There are No Transportation Expenses: In a market with perfect competition, transportation expenses are assumed to be nonexistent. The presumption is based on the justification that because the many businesses are so close to one another, there are no transportation expenses[8], [9].

7. Perfect Mobility of Components of Production: In order for perfect competition to operate without a hitch, complete mobility of production components is required. The factors of production should be allowed to enter any sector they deem profitable for themselves. For the first requirement of perfect competition a large number of sellers in the market to be satisfied, perfect factor mobility must exist.

8. No Government Interference: In a market with perfect competition, there must be no artificial limitations on the supply, demand, prices, and factors of production. The cost of commodities and production inputs cannot be fixed by the government. There cannot be any artificial restraints on consumer demand for commodities through governmental restriction.

9. Single Price: It is considered that the price is established by the interaction of market supply and demand forces. Many suppliers and purchasers agree to this equilibrium pricing.

10. No Selling Costs: Since several merchants offer identical goods at the same price, advertising and other sales promotion costs are ruled out.

Price Determination in a Competitive Environment

Because the pricing mechanism controls such crucial decisions as resource allocation, factor income distribution, production composition, and factor combination changes, price plays a major role in economics. The majority of contemporary economies are market economies, where this mechanism serves to steer and govern how the entire economy operates. The overall supply and demand in the market, or the entire industry, influence price. With an increase in price and a decrease in price, the

supply changes. As a result, the two economic forces that act in opposition to one another are supply and demand. Additionally, price is set at the point where industry supply and demand are equal. This price represents equilibrium.

Demand and supply are two economic forces that operate in opposition to one another, as is common knowledge. Professor Marshall likened these two economic forces to the two scissor blades. Supply is represented by the upper blade. Similar to how both scissor blades are necessary to cut a piece of paper, both economic forces, i.e., total supply and demand, are necessary to decide the price in a competitive market. At the market price where the supply and demand are equal, the two forces are balanced or in equilibrium. The 'equilibrium price' is the market price. Market or equilibrium prices do not always represent fair prices. It doesn't include any morality. It is simply the outcome of a balance between the supply and demand for the product. We use a timetable and diagram to show the mechanism of the equilibrium price i.e., price determination in a market that is competitive.

Monopoly

Mono and 'poly' are the two syllables that make up the word monopoly. 'Poly' indicates selling wheelsman' denotes single. As a result, a monopoly in a market indicates a single vendor of a commodity. In actuality, a monopoly is defined as an environment in which there is only one producer or seller in a market. He has complete control over the flow of a single good. Since the commodity has no near replacements, it is a single commodity. Thus, a monopoly is defined as a single seller of a good or service on the market.

Total Monopoly

However, there are other ways in which monopoly might be understood in economics. It can be understood with the aid of the level of market competition now existing. It is a pure, perfect, or absolute monopoly when there is only one seller of a commodity in a market and no other form of competition. There is no differentiation between the firm and the industry when there is an absolute monopoly. The price of the monopolist's commodity is unaffected by any change in the price of those other commodities. In the local public utility sectors, such as gas, electricity, water supply, etc., pure monopoly is shown to exist. The seller holds a significant position in a pure monopoly. He can set the price to his liking because there is no alternative to his product. However, the truth is that no company, anywhere, has the power to sell a little output at an absurdly high price.

Pure monopoly is a fiction, to put it simply. Nowhere has it ever existed. It is merely the economists' theoretical imagination. Confined monopoly As a result, we arrive at a market situation that is more realistic, a limited or imperfect monopoly. There is just one vendor of the product in this market scenario, and there are no close alternatives. In contrast to a pure monopoly, the position of the monopolist is weaker in an imperfect monopoly. The explanation for this is that under a pure monopoly, we presume that his product has no competitors. However, in a limited monopoly, the monopolist may face some competitors for his goods, even if they are not exact or close alternatives. For instance, anElectric supply companies serve as examples of imperfect competition since other sources of light, such as gas, kerosene, and candles, are also available. These alternatives to electricity are not exact, but a similar alternative is accessible. The average revenue curve thus has a declining slope. Less is sold when he fixes a higher price. Lowering the price will allow him to sell more product.The following aspects of monopoly stand out:

1. Single seller the market's monopolist is its sole producer.
2. Firm and industry identical: In a monopoly market, there is no differentiation between the two because the firm and industry are the same because it is the only vendor.
3. No close substitute the product has no close alternatives that are as competitive.
4. Price-maker a monopolist sets the price, not someone who buys it. In a market with perfect competition, the seller is a price-taker, accepting the market's prevailing price. However, a monopolist has the power to set the product's price. He can also charge various prices to different customers, or price differentials.

5. Average Revenue or Demand Curve As in an industry, a monopoly firm experiences a downward-sloping demand curve for its product. In other words, it can sell more for less money while making less money for more.
6. No free entry since the monopolist is the only seller and there are no near substitutes, there must be barriers which may be natural, technical, economic, or legal that prevent enterprises from entering the market freely.
7. Control over output a monopolist has total control over the market supply of his product in the absence of a close replacement. The monopolist can set a high price and limit the market's production supply.

Types of Monopoly

Different sorts of monopolies are created by various types of entry barriers for businesses and other market-related considerations.

1. Simple and Discriminating Monopoly: Based on the monopolist's pricing strategy, it is a simple and discriminating monopoly. Simple monopoly occurs when a charges all customers the same price. Such a monopoly only works in oneA discriminating monopoly occurs when a company charges various customers at various prices. For instance, a doctor may charge low costs to the poor and exorbitant prices to the wealthy.

2. Private and Public Monopolies: There are private and public monopolies depending on the kind of ownership. A private entity controlling a monopoly is known as a private monopoly. In a mixed economy, private monopolies that are exclusive to the private sector are typically motivated by financial gain. For instance, Tata, Birla, Reliance, etc. A public monopoly occurs when the government owns, controls, and runs all aspects of industry. These monopolies often only exist in nationalized industries. Public monopolies are driven by welfare and service. They are also known as Social Monopolies for this reason. For instance, the Industrial Policy Resolution 1991 in India expressly declared that the Central Government has the exclusive monopoly on specific sectors such as atomic energy, guns and ammunition, etc.

3. Pure Monopolistic and Imperfect Monopoly: Monopolies can be either pure or imperfect depending on their level of monopolistic power. When a single vendor controls the entire supply of a good and there is no other option for purchasing it, the situation is known as pure monopoly. It has a complete monopoly. Pure monopoly is the polar opposite of competition. Limited monopoly is implied by imperfect monopoly. In this instance, the sole vendor has a comparable replacement for his goods. Pure monopoly is a fantasy, whereas imperfect monopoly is a fact.

4. Technological, Natural, And Legal Monopolies the Many Types of Monopolies: It results from legal requirements like trademarks and copyrights, among others. It is lawful since it is against the law for competitors to copy the shape or design of goods that are protected by a registered trademark, brand name, etc. For instance, the Indian postal system. Natural resources and advantages, such as a favorable location, a temperate climate, the availability of specific minerals or raw materials, etc., give rise to this form of monopoly. The company that asserts its right to use these resources first is considered to have a natural monopoly. For instance, the Gulf nations control the oil market, South Africa the diamond market, India the jute market, etc.A technology can only be used once it has been registered and cannot be copied, creating a technological monopoly. As a result, the company in possession of such technology has the status of a technological monopoly. Joint monopolies are formed when corporations band together to form cartels, syndicates, or other business alliances, which give rise to joint monopolies in the market. Organization of Petroleum Exporting Countries OPEC, for instance.

Monopolistic Fighting

We don't encounter either perfect competition or monopolies in the actual world. These extreme situations are uncommon. One of the many shapes that imperfect competition can take in practice is monopolistic competition. In other words, the terms imperfect competition and monopolistic competition are interchangeable. Where any of the perfect competition's requirements aren't met,

imperfect competition rules. Market structures ranging from near monopoly to near perfect competition are all examples of imperfect competition. Monopolistic rivalry describes a market setting where there are numerous businesses offering a unique product. When there is only one producer of a good, there is fierce competition between many firms making or producing very similar products, too many forms of imperfect competition exist today. Oligopoly and monopolistic competition are the two main types. Monopolistic competition can be found in a variety of industries, including retail, services, and some industrial branches, such as the clothing and appliance industries, beauty salons, coaching centers, restaurants, and the manufacturing of cosmetics and apparel. These all have monopolistic competitive markets, as do many more. Here, we make the distinction between monopolistic competition and imperfect competition. Monopolistic competition is merely one of several subtypes of imperfect competition, which is a more general term. Specifications / Features of Monopolistic Competition. The primary attributes are:

There are several sellers: In monopolistic competition, the market is populated by numerous companies that sell closely related but distinct items. Reiterating theinstances of this Retail trades, service sectors like gas stations, dry cleaners, etc. may exhibit monopolistic competition. Only a small fraction of the market's overall output is within the control of each enterprise. Any action it takes will either have little or no impact on other businesses. The second essential aspect of monopolistic competition is product differentiation. Under monopolistic competition, a large number of businesses provide differentiated goods that are not exact alternatives for one another but get nearby. For instance, a lot of companies in India make cosmetics, but each one's product is unique from its competitors in one or more ways, such as the various face powders made by Lake, Revlon, Himalaya, etc. There are several ways to differentiate products, as will be explained below:

A Product diversification can occur due to variations in the quality of the materials employed, such as in their strength or level of craftsmanship.Product differentiation by providing clients with add-on services in addition to the sale of the product, such as home delivery of goods and repair guarantee.Product distinction may be accomplished through publicity and advertising.Product differentiation can also be achieved by altering the location of the premises, as in the case of clothing sold in a boutique and a roadside stand.In monopolistic competition, it is easy for a new company to merge with an established one or quit the sector. There are many relatively small-sized businesses that make it simple to enter and leave the market. The straightforward production processes and cheap capital requirements make it easier for new businesses to enter the market.Lack of Firm Interdependence. In monopolistic competition, there is no firm interdependence. The following factors account for the lack of interdependence: There are many businesses engaged in monopolistic competition.Every company sells a differentiated good.Selling costs are a distinctive aspect of monopolistic competition.

Competition to the Truth

When there are many consumers and sellers of the goods and there is no business competition at all, the market is considered to be ideal. The businesses market uniform items. Characteristics of a perfect competition the following is a summary of the key characteristics of this kind of market:

1. Numerous purchasers and sellers. The quantity of buyers and sellers is so great that no one buyer or vendor can independently affect the market price or output. This is due to the fact that each buyer and seller only purchases or sells a relatively small portion of the overall output.
2. Products that are uniform. A company creates a good that consumers perceive as uniform or homogeneous. A buyer has no way of knowing which things were sold by which merchants. The presumptions of numerous vendors and purchasers and a homogeneous product suggest that there is only one firm that is a price-taker. Demand curve, also known as the average revenue curve, is a horizontal straight line that is parallel to the output axis and is infinitely elastic. As a result, a company operating in a market with perfect competition can sell any quantity of goods at the going rate.
3. The enterprises' free entrance and exit. Every company is free to enter or exit the sector.

4. New businesses can enter the market to share in the profits if the sector is profitable. Similar to this, individual businesses can leave the market if the industry experiences losses.
5. No rules from the government. No taxes, subsidies, rationing of necessities, or other forms of government meddling in the market exist.
6. Consistent pricing. A commodity's pricing at a given time is the same across the board in the market.
7. Pure competition is related to the five conditions mentioned above. The following extra presumptions/conditions must be true for perfect competition to exist.
8. Complete understanding of market circumstances. Both buyers and sellers are fully aware of the market price at which transactions take place.
9. The factors are perfectly mobile. Production inputs are easily transferable between businesses in the sector. Additionally, they have the option of switching jobs, which provides the opportunity to pick up newer abilities.
10. There are no selling or shipping expenses. In an ideal market, selling and other promotional costs do not exist.

III. CONCLUSION

Comprehension the dynamics of supply and demand, resource allocation, and market efficiency requires a comprehension of the basic economic principles of the market and price determination. Perfect competition, monopoly, oligopoly, and monopolistic competition are examples of market structures that offer insights into the degree of rivalry, market sway, and product differentiation. Every market structure has unique characteristics that influence pricing policies, customer welfare, and corporate conduct.The interaction between supply and demand forces affects how prices are determined. The market-clearing price at a specific time is reflected in the equilibrium price, where quantity requested and quantity supplied are equal. Demand and supply are impacted by variables like customer preferences, income levels, input prices, production costs, and governmental laws, which causes changes in equilibrium and price adjustments.

REFERENCES

[1] R. Sharifi, A. Anvari-Moghaddam, S. H. Fathi, and V. Vahidinasab, “A bi-level model for strategic bidding of a price-maker retailer with flexible demands in day-ahead electricity market,” *Int. J. Electr. Power Energy Syst.*, 2020, doi: 10.1016/j.ijepes.2020.106065.

[2] X. Gabaix and M. Maggiori, “International liquidity and exchange rate dynamics,” *Q. J. Econ.*, 2015, doi: 10.1093/qje/qjv016.

[3] S. Irdiana, “Determinan Harga Saham Perusahaan Yang Terdaftar Di Bursa Efek Indonesia,” *Wiga J. Penelit. Ilmu Ekon.*, 2018, doi: 10.30741/wiga.v8i1.235.

[4] J. Bouoiyour, R. Selmi, S. Hammoudeh, and M. E. Wohar, “What are the categories of geopolitical risks that could drive oil prices higher? Acts or threats?,” *Energy Econ.*, 2019, doi: 10.1016/j.eneco.2019.104523.

[5] S. Basak, “Asset pricing with heterogeneous beliefs,” *J. Bank. Financ.*, 2005, doi: 10.1016/j.jbankfin.2005.02.003.

[6] B. Uzzi and R. Lancaster, “Embeddedness and price formation in the corporate law market,” *Am. Sociol. Rev.*, 2004, doi: 10.1177/000312240406900301.

[7] F. Schlosser, M. Jesper, J. Vogelsang, T. G. Walmsley, C. Arpagaus, and J. Hesselbach, “Large-scale heat pumps: Applications, performance, economic feasibility and industrial integration,” *Renew. Sustain. Energy Rev.*, 2020, doi: 10.1016/j.rser.2020.110219.

[8] K. K. Cetina, “The Market,” *Theory, Cult. Soc.*, 2006, doi: 10.1177/0263276406062702.

[9] J. Juliet, “PENGARUH CITRA MEREK, KUALITAS LAYANAN, PROMOSI DAN HARGA

TERHADAP MINAT BELI KEMBALI JASA ANTAR OJEK ONLINE MEREK GRAB-BIKE DI JAKARTA PUSAT," *J. Ekon. Perusah.*, 2020, doi: 10.46806/jep.v27i1.702.