

CHAPTER 1 -MARKET STRUCTURE ANALYSIS

Ques. What do you mean by market?

Ans. Meaning: The term market refers not necessarily to place but always to a commodity and the buyers and sellers who are in direct competition with one another.

For example, we normally use sentences like market of scooters is very dull these days.

In this way, the market may be defined as an arrangement of establishing effective relationships between buyers and sellers of the commodities.

Definitions:

"Economists understand by the 'market' not any particular market place in which things are bought and sold, but the whole of any region in which buyers and sellers are in such free intercourse with one another that the prices of the same goods tend to equality, easily and quickly".

By Prof. Curnot

Market is any area over which buyers and sellers are in close touch with one another directly or through dealers, such that the price obtainable in one part of the market affects the prices paid in other parts".

By- Prof. Benhem

The features of a market are as follows:

1. Buyers and sellers
2. A product or service
3. Bargaining for a price
4. Knowledge about market condition
5. Single price at a given time.

Ques. Write a note on classification of markets.

Ans. A market can be classified on various basis, they are as follows:

- A. On the basis of nature of the product:
 - a. Product market: It is also known as commodity market and refers to a market where goods and commodities are bought and sold.
 - b. Factor market: It refers to a market where factors like land, labour, capital etc, are bought and sold.
- B. On the basis of area:
 - a. Local market: In this, the commodity or service is bought and sold only in a particular locality, village or city. It depends on local conditions.
 - b. Regional market: In this, the commodity is bought and sold in a particular region.
 - c. National market: In this, the commodity is bought and sold all over the market.
 - d. Inter-national market: In this, certain commodities are traded Internationally.
- C. On the basis of time:
 - a. Very short period market: In this, the commodities with fixed supply and which are perishable in nature will come.

- b. Short period market: In this, the commodities whose supply is limited in the short period, that is, whose supply can be increased while increasing the variable factors only.
 - c. Long period market: In this, the firm is having enough time to change the size of its plant, according to change in the demand for its product.
 - d. Very long market or secular market: This is the period wherein, there are changes taking place in consumer's tastes and preferences, in production techniques, invention of new technology, social customs, etc. These changes in demand will have its full effect on prices.
- D. On the basis of nature of transactions:
- a. Spot market: In this, goods and commodities are physically exchanged on the spot.
 - b. Future market: In the future market, there is agreement of future exchange of goods.
- E. On the basis of volume of business:
- a. Wholesale market: In the wholesale market, goods are transacted in large quantities. It links between the producer and the retailer.
 - b. Retailer market: in this market, transactions involve small quantities. It is a link between the wholesaler and the consumer.
- F. On the basis of regulations:
- a. Regulated market: This market is regulated by the government. as there are chances of manipulation of prices of the goods and services against the interest of the consumers.
 - b. Unregulated market: In this market, transactions of goods and services are made freely; there are no regulations or conditions laid down by the govt. in such a market.
- G. On the basis of status of seller's:
- a. Primary market: This market helps to establish link between manufacturers of goods and services and wholesalers.
 - b. Secondary market: This market consists of wholesalers establishing links between the manufacturers and the retailers.
 - c. Terminal market: The terminal market comprises retailers who sell the goods to the ultimate consumers.
- H. On the basis of competitions:
- a. Perfect competition
 - b. Monopoly
 - c. Monopolistic competition
 - d. Oligopoly competition
 - e. Duopoly

Ques. Explain the factors affecting the size of the market.

Ans. Following are the factors affecting market size:

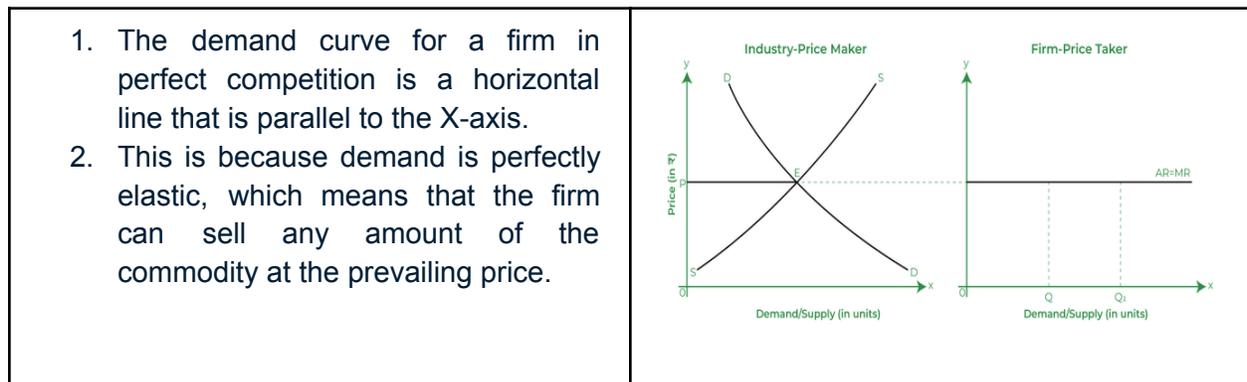
1. Size of population: If the size of population is more, market size will be more and vice versa.
2. Level of income: Rise in income will bring rising demands, whereas during recession size of market contracts.
3. Nature of the product: The nature and importance of the product also affects the size of a market. For example, portable, durable, suitable for grading, sampling and description products usually have a wide market. Whereas bulky articles and perishable products have a narrow market.
4. Nature of demand for the product: It may be local, national, international.
5. Adequate, quick and affordable means of transport and communication enlarge the market and vice versa.
6. Countries properly avail with peace and security and maintenance of law and order will enhance the market, whereas, political turmoil, breakdown of law and order, insecurity of life and property restricts the market size.
7. Stability in exchange rate and a well developed credit system enables the people of that country to demand more which enhances the market and vice versa.
8. Government policies: New economic policy which welcomed the concept of globalization, privatization and liberalization has helped the market to expand more than it was before the policy.
9. Division of labor: A greater degree of division of labor resulting in lower cost per unit and consequently lower price tends to widen the size of the market.
10. Advertising expenditure: More advertisement, wider market and so on, following the advertising elasticity, sales curve.

Ques. What do you mean by perfect competition? Explain the main features of it.

Ans. Following are the main features of perfect competition:

1. Very large number of firms or sellers.
2. Very large number of buyers.
3. Homogeneous Product
4. Free entry and exit: In perfect competition, there are no restrictions on the entry of new firms or on the exit of existing firms from the market. If the existing firms are making supernormal profits in the short run, then in the long run new firms will enter the market. On the other hand, if firms are making losses, then some existing firms will leave the industry in the long run. In this way firms may earn supernormal profits, normal profits and losses in the short run but in the long run firms will earn just normal profit.
5. Perfect knowledge: In a perfectly competitive market, buyers and sellers possess complete and up to date information about the market conditions. Both buyers, and sellers are fully aware of the price prevailing in the market.
6. Perfect mobility: Here, the factors of production are completely mobile, which ensures easy entry and exit of firms; besides it also ensures that the factor costs are the same for all firms. On the buyers' side, they have no preference between different sellers and between different units of commodity offered for sale; as the products are perfect substitutes.

7. Uniform price: There is a uniform price for the commodity through the market at a given point of time. Under such conditions if any seller tries to raise his price above that charged by the others, he would lose his customers.
8. There are no government restrictions: The govt. does not interfere in the price determination. Price is determined by the market demand and supply. There is no price control imposed by the government.
9. Industry is price maker and firm is price taker: The industry will decide the price on the equilibrium point where market demand equals market supply and each firm will accept the price decided by the market: So we can say that industry is price maker and firm is price taker.
10. Short run and long run: Here, the firm may earn super profits, normal profits or incur losses in the short run but in the long run the firm will earn just normal profit. In the long run $LRARC = LRMRC = LRACC = LRMCC = P$. There will be optimum allocation of resources because output will be produced at minimum cost.
11. $P=AR=MR=DD$: $AR=MR$



12. Firms and industry demand curve: In perfect competition firm demand curve will be horizontal but industry demand curve will be negatively sloped.
 13. Transportation cost and selling cost: Such costs are not found in this market.
- Pure competition or free competition: If only the first three conditions exist, it will be treated as pure competition. These three are:
 1. Large no. of buyers and sellers.
 2. Homogeneous products.
 3. Free entry and exit of firms.

Ques. Explain the short run and long run equilibrium of a firm and industry working under perfect competition.

Ans. Meaning: The term equilibrium refers to a "state of balance", "a position of rest", or "a position of no change".

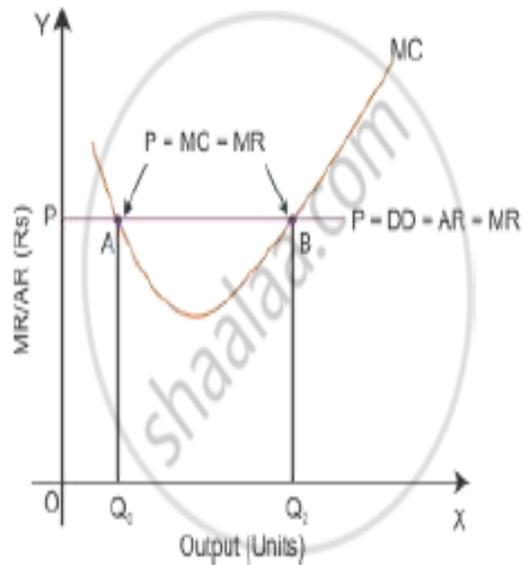
Equilibrium is a situation in which economic forces have no tendency to change. A firm is said to be in equilibrium when it has no tendency to change its factor proportion or its output level.

Such equilibrium of a firm will occur when it earns maximum profit, for it is only then that the firm will have no desire to change the level of its output by adding or reducing factors of production.

- Basic conditions of equilibrium of a firm under perfect competition:
 - a. Marginal cost must be equal to marginal revenue: obviously a firm will continue its output if MC is less than MR, if the firm stops production at this stage; it will not be able to earn maximum profits. Likewise if it continues production even after $MC=MR$, the firm will incur losses because in that case marginal cost will be more than marginal revenue. Thus an individual firm will optimise its output level where its $MC=MR$.
 - b. The MC curve should, cut MR curve from below: It can be clear from the given diagram:

In this diagram,

1. Marginal cost curve cuts marginal revenue curve at two points A and B.
2. At point A it cuts MR from above and at point B it cuts it from below.
3. Point A cannot be the equilibrium point since beyond this point, marginal cost is lower than marginal revenue and it will pay the firm to increase the output beyond OA.
4. It is at point B when the MC curve cuts the MR curve from below that the firm will be in equilibrium.
5. This is because if the firm increases its output beyond this point, marginal cost becomes higher than marginal revenue.
6. The equilibrium point will be point B where the firm will be producing OD output and earning maximum profits.



- Equilibrium of a firm in the short run:

The firm will be in equilibrium where marginal cost is equal to marginal revenue and marginal costs curve cuts marginal revenue curve from below. But this equilibrium position does not say anything about the profit and loss situation of the firm.

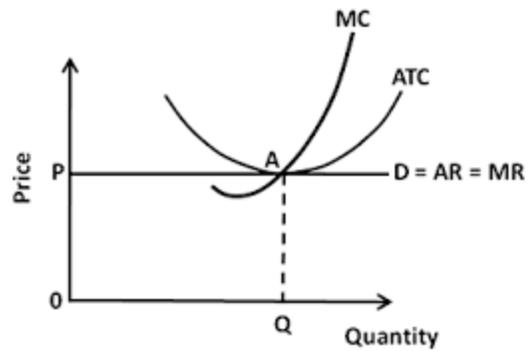
In the short run, the average cost may be more or less than the average revenue or price. We can therefore, consider three situations:

1. First situation where average cost is equal to average revenue ($AR=AC$): In this case the firm will earn only normal profit. Here the average cost curve is a tangent to average revenue curve. This situation represents full equilibrium of the industry as even in the short run; all firms are earning normal profits.

This can be clear from the given diagram:

In the given diagram it is clear that,

1. On OY axis price and on OX axis output is indicated.
2. PD is the price line and since there is perfect competition, it is also the MR curve.
3. Marginal cost curve MC cuts MR curve from below at point A, where the firm is in equilibrium with OQ output level.
4. Again, at point A, AC curve is equal to AR curve which shows that the firm is earning normal profits.

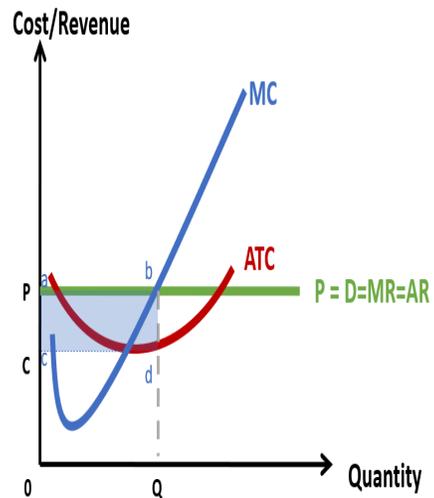


2. Second situation wherein, average revenue is greater than average cost ($AR > AC$): Here the firm earns supernormal profits. The reason for this is that the period of time being short, new firms do not enter the industry and therefore the existing firms continue to earn supernormal profits. This can be clearer from the given diagram.

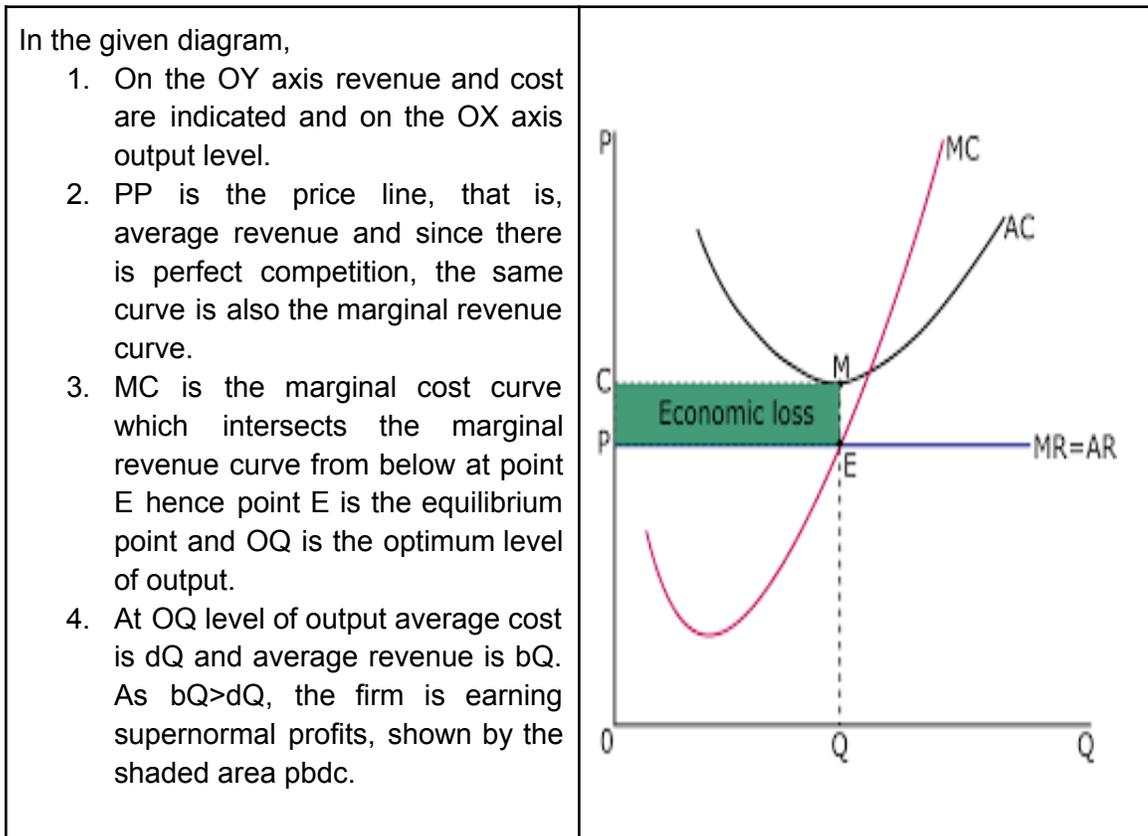
In the given diagram,

1. On the OY axis revenue and cost are indicated and on the OX axis output level.
2. PP is the price line, that is, average revenue and since there is perfect competition, the same curve is also the marginal revenue curve.
3. MC is the marginal cost curve which intersects the marginal revenue curve from below at point b hence point b is the equilibrium point and OQ is the optimum level of output.
4. At OQ level of output average cost is dQ and average revenue is bQ. As $bQ > dQ$, the firm is earning supernormal profits, shown by the shaded area pbdc.

A Perfectly Competitive Firm Earning "Supernormal Profit"



- Third situation wherein average revenue is less than average cost ($AR < AC$): In this case the firm will incur losses. In the short run, we can even face a situation where the average cost of the firm is higher than the price and so the firm is not able to earn even normal profits, that is, it incur losses. The equilibrium position of the firm, here, therefore indicates the position of minimum losses. This can be clear from the below given diagram.



In the given diagram it is clear that,

- On OY axis price and cost and on OX axis output level is indicated.
- AB is the price line, that is, average revenue and since there is perfect competition, the same curve is also the marginal revenues curve.
- MC is the marginal cost curve which intersects the marginal revenue curve from below at point P hence point P is the equilibrium point, wherein firms produce OM level of output at OA price per unit.
- Again, at OM output level average cost is OS whereas average revenue is OA which is less; hence the firm is incurring losses, shown by the shaded area SAPR.

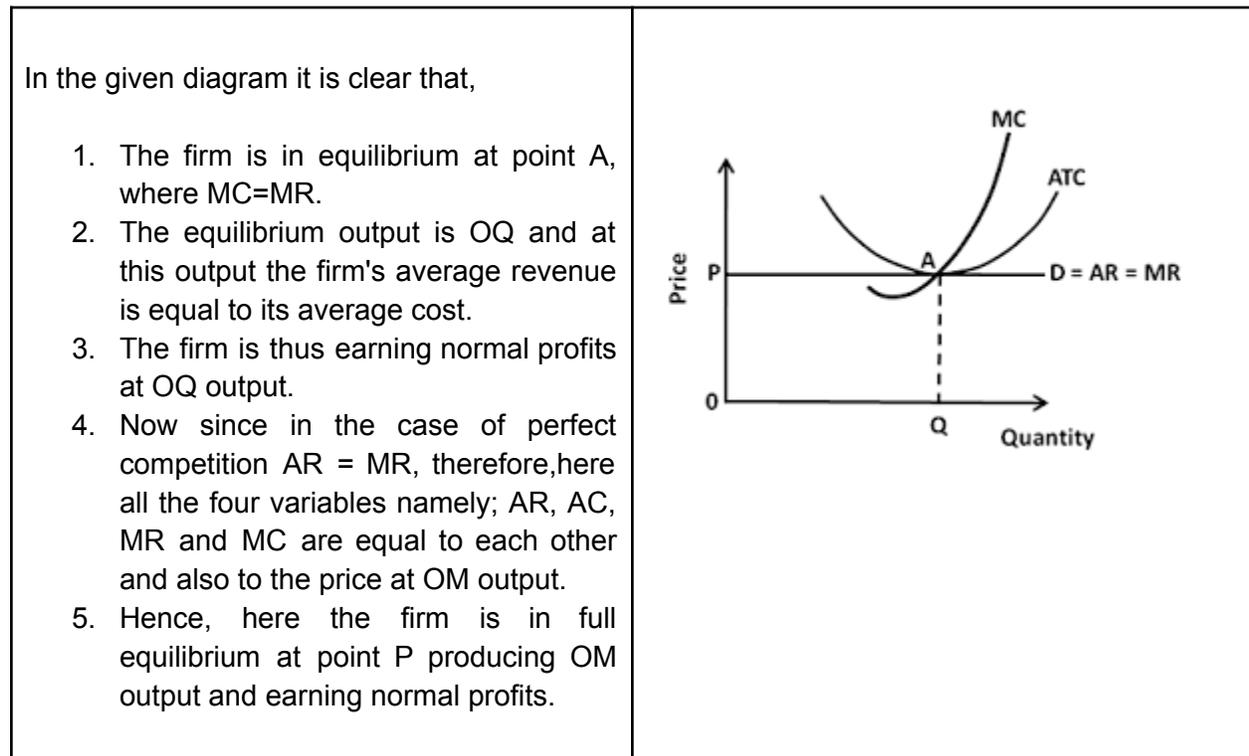
Equilibrium of a firm in the long run: As we all know that in the long run, there is enough time for the existing firms to exit from the market if still they are facing losses and there is enough time for the new firms to enter in the market if the existing firms are earning abnormal profits.

Hence, in the long run the firm is able to earn only normal profits because if it is not so then that firm will leave the market, and if it is earning abnormal profits other new firms will enter in the market which leads to an increase in the overall production which would lead to a fall in the market price to the level of average cost of the firm so that all firms earn only normal profits.

Thus, the long run equilibrium of a firm under perfect competition is attained when the following two conditions are satisfied:

1. $MC = MR$
2. $AR = AC$.

Now since under perfect competition AR is equal to MR , therefore under long run equilibrium of a firm: $Price = AR = AC = MR = MC$. This can be clear from the given diagram.



Ques. Explain industry equilibrium under perfect competition.

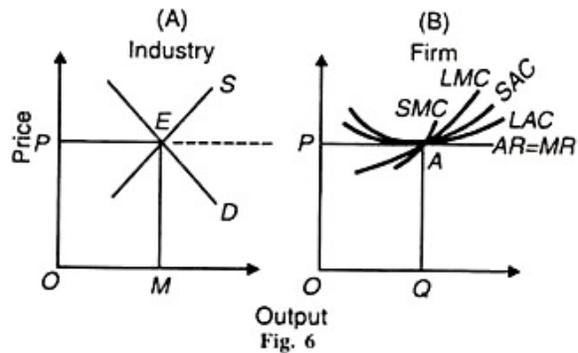
Ans. Long-Run Equilibrium of the Industry:

- The industry is in equilibrium in the long-run when all firms earn normal profits. There is no incentive for firms to leave the industry or for new firms to enter it. With all factors homogeneous and given their prices and the same technology, each firm and industry as a whole are in full equilibrium where $LMC = MR = AR (-P) = LAC$ at its minimum.
- Such an equilibrium position is attained when the long-run price for the industry is determined by the equality of total demand and supply of the industry.

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The long-run equilibrium of the industry is illustrated in Figure 1,

1. where the long-run price OP is determined by the intersection of the demand curve DD and the supply curve SS at point E and the industry is producing OQ output.
2. At this price OP , the firms are in equilibrium at point A in Panel (B) at OQ level of output where $LMC = SMC = MR = P (= AR) = SAC = LAC$ at its minimum.



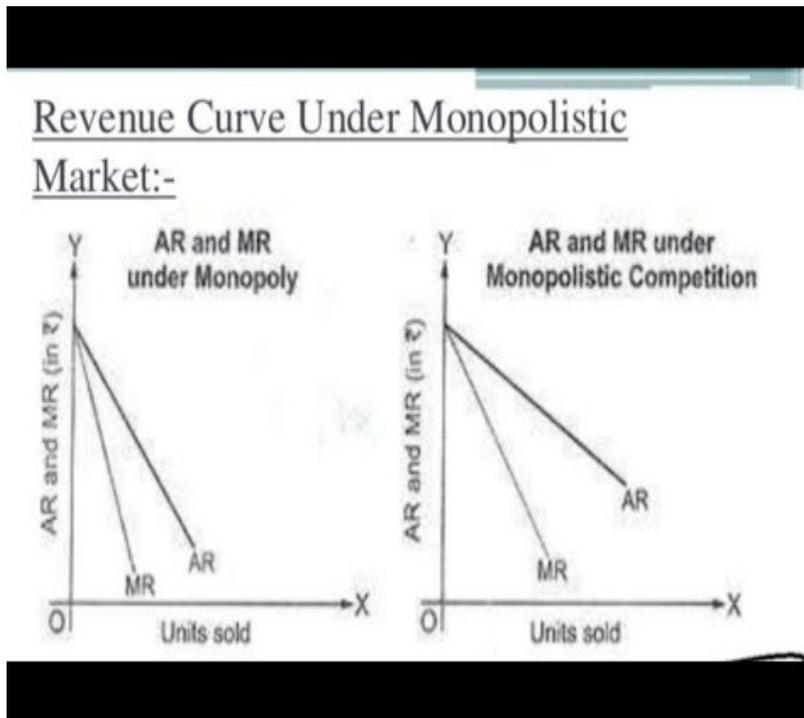
- At this level, the firms are earning normal profits and have no incentive to enter or leave the industry. It follows that when the industry is in long-run equilibrium, each firm in the industry is also in long-run equilibrium.

Ques. What do you mean by monopolistic competition? Explain the main features of it.

Ans. Meaning: Monopolistic competition is found in the industry where there are large numbers of small sellers, selling differentiated but close substitute products for example, LUX, Haman, LIRIL Soap, etc. this market contains features of both perfectly competitive and monopoly markets.

- The features of monopolistic competition are as follows:
 1. Fairly large nos, of buyers and sellers: There are large nos. of sellers who individually have small share in the market, so these sellers are known as 'group'. Each firm is small relative to the market.
 2. Free entry and exit: There is free entry and exit of firms. It implies that in the long run the firm will earn only normal profits.
 3. Product differentiation: It is one of the most important features of monopolistic competition. Each firm produces a different brand or variety of the same product. The varieties produced are very close substitutes of one another. Products like toothpaste, soap, lipstick, etc are prominent examples of it.
 4. Non-price competition: In this type of market, sellers try to compete on the basis other than price; and it is called non-price competition. They incur advertising costs. It is because of the need to maintain a perception in the mind of the potential consumers that their respective brands are different compared to the other.
 4. Every firm is the price maker and price taker of his own product: In monopolistic competition products are different from every firm and so costs of product are also different. Thus, every firm is the price maker and price taker of his product.
 5. Imperfect mobility: Here factors of production are completely not mobile. Buyers have their own preference and sellers have their own preference.

6. AR and MR: In monopolistic competition AR will be greater than MR but AR/demand curve will be more elastic than the monopoly market.



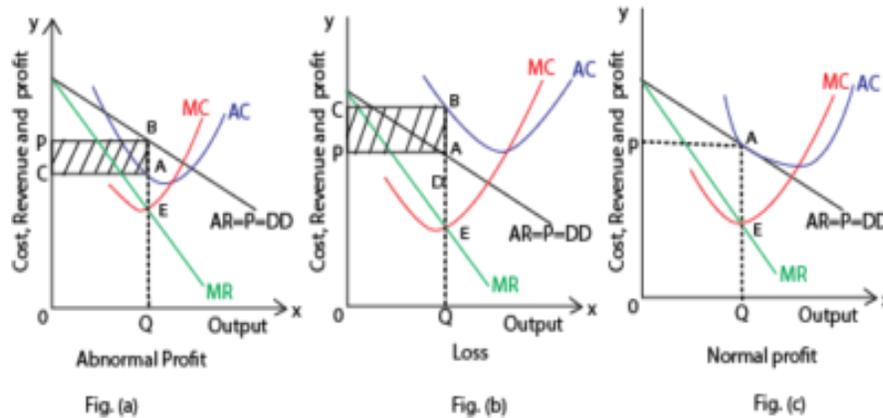
Ques. Explain the situation of short run and long run price and output determination of a firm working under monopolistic competition.

Ans. As in other market situations, the equilibrium of a firm under monopolistic competition is also attained at that point where $MC = MR$. However, in order to maximize profits, a firm under monopolistic competition has to consider three variables:

1. Price of the product: Here the firm has to choose that price output combination which gives it maximum profits.
2. Nature of the product: The total sales of a firm also depend upon the extent to which its product is different from the products of its rival firms.
3. Advertising outlay or selling costs: As the firm produces close substitute products it has to compulsorily involve selling costs. Short run equilibrium of a firm working under monopolistic competition
 - The equilibrium price and output of a monopolistically competitive firm is determined at the point where,
 - a. $MC = MR$
 - b. MC cuts MR from below
 - c. AR that is price is equal to or greater than AVC-average variable cost

Under short run when a monopolistically competitive firm is in equilibrium position then firm may earn supernormal profits, normal profits and may incur losses depending upon its average total cost conditions (ATC).

- Prof. Chamberlin has used the word "individual equilibrium" to connote short run equilibrium of a firm under monopolistic competition:



- A. 1st situation showing firm earning only normal profit, wherein average cost is equal to average revenue ($AR = AC$): This can be clear from the given diagram, It is clear from the given diagram that,
- At point E the short run MC is equal to the short run MR and the firm produces OQ output at OP price.
 - The AR curve is tangent to the short run cost curve at point A at the output level OM.
 - The firm here earns only normal profits.
- B. 2nd situation showing firm earning supernormal profit wherein, AR is greater than AC ($AR > AC$): This can be clearer from the given diagram, It can be clear from the given diagram that,
- Point E is the equilibrium point of the firm where the short run marginal cost curve is equal to the short run marginal revenue curve and it produces OQ output at price OP.
 - The average revenue BQ is greater than the average cost AQ and the total profit area is indicated by the rectangle PBAC.
 - This area shows the area where the firm" is earning supernormal profit in the short run.
- C. 3rd situation showing firm incurring losses, wherein, average revenue is less than average cost ($AR < AC$): This can be clearer from the given diagram, In the given diagram it is clear that,
- At point E, the short run MC is equal to short run MR and the firm produces OQ output at price OP.
 - As this price OP or OQ is less than the short run average cost OC (QB) at the equilibrium level of output OQ, thus the firm here incurs a loss.
 - The loss area is shown by the rectangle PABC.

- Equilibrium of a firm in the Long Run**

In the long run, the firm will earn only normal profit as there is free entry and exit of the firms. The final equilibrium in the long run will take place at that level of output and price at which $LMC = LMR$. The firm, in the long run, will earn normal profits, because there is free entry and exit of firms. This will continue until the AR curve becomes tangent to the AC curve and abnormal profits are wiped out.

This is shown in the figure given below, wherein, $AR = AC$ at point A. here the firm will be making only normal profits.

Diagram showing long run equilibrium of a firm under monopolistic competition:

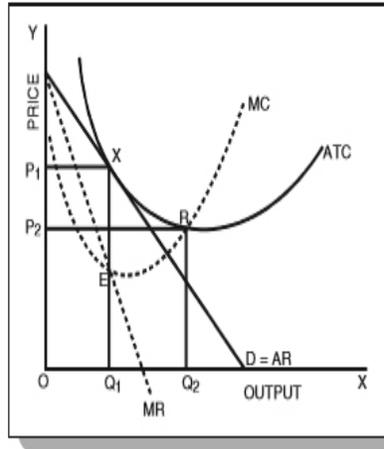


Fig. 3 : The long-term equilibrium of a firm in monopolistic competition

*ZERO ECONOMIC PROFIT- $MR=MC$, $P=D=ATC$

EXCESS CAPACITY- ATC CAN BE LOWER WITH INCREASED OUTPUT

The above diagram clarifies two things:

1. Each firm will make a zero economic profit in the long run, and
2. The market outcome of monopolistic competition is inefficient.

Ques. Explain the concept of 'Group Equilibrium' or long run equilibrium of Group under monopolistic competition.

Ans. Prof. Chamberlin has used the word "group" in place of Industry, because the word "industry" refers to a number of firms producing homogeneous products as we found in perfect competition.

However, under monopolistic competition, the firms produce heterogeneous / differentiated products hence it has been referred to as "group" by Prof. Chamberlin which means collection of firms which produce closely related goods. Thus, for example, all toothpaste making firms may be regarded as one "group" of monopolistic competition.

The long run equilibrium of the "group" is given as under:

The long run equilibrium of the "group" will be attained, when there is no incentive for the new firms to enter the group and the existing firms have no reason to leave the group.

In short, the group will be in equilibrium when all the firms in "group" are earning only normal profit.

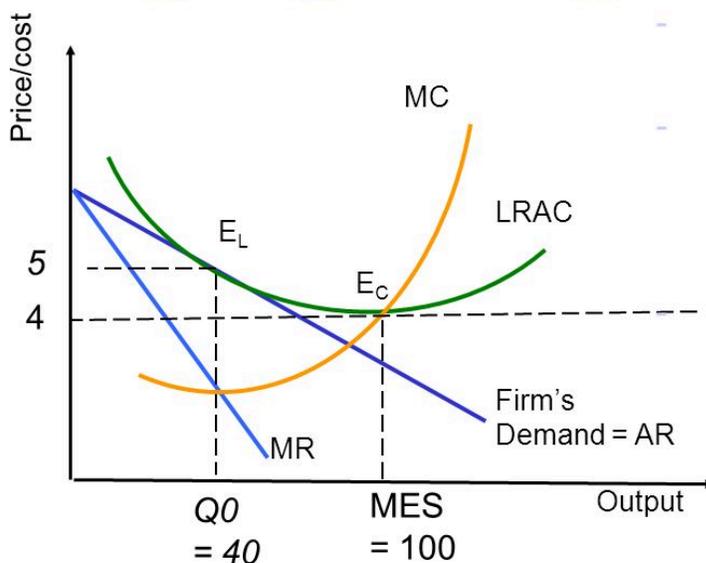
Again, one of the salient features of equilibrium under monopolistic competition is that, **when the group is in long run equilibrium, each firm produces an output which is less than the optimum output**, that is, it does not produce at the minimum average cost.

If the firm increases its output beyond this point, then, in order to sell the additional output it has to lower the price. As such,

1. The volume (amount) of output available to the society is less under monopolistic competition.
1. Consumers exploit as they are getting less output to consume and that too they have to purchase it at comparatively higher price.
2. Unnecessarily incurring higher selling cost in the form of persuasive advertisements.
3. This results in some unused capacity called excess capacity.
4. This results in wastage of scarce economic resources of the economy as a whole.

This can be clearer from the given diagram,

Monopolistic Competition: Excess Capacity Theorem



Assume

Market demand = 10,000 units

If each firm produces 40 units, then 250 firms

Will society's welfare be increased if firms expand production to MES?

Ques. Give a comparative study of firms working under Perfect competition and Monopolistic competition.

Ans. Comparative study of both the competitive firms is as follows:

1. In P.C. (perfect competition), there are large nos. of buyers and sellers whereas, in MC there are fairly large nos. of buyers and sellers.
2. In P.C. AR and MR coincide, whereas, in MC both AR and MR are different curves and MR lies below the AR curve.
3. In PC all firms produce homogeneous products whereas, in MC (monopolistic competition) firms produce differentiated products.
4. Both under PC and in MC, there is free entry and exit of the firms.

5. In PC, the demand curve is parallel to the X axis, whereas in MC it is a downward sloping curve showing more elastic demand.
6. In PC, the firm is the price taker whereas in MC every firm is the price taker and price maker of his own product.
7. In PC, there prevails on single price whereas in MC there are different prices for differentiated products.
8. Although, in both the situations of perfect competition as well as monopolistic competition firms in the long run earn only normal profits, but in perfect competition, the firms are producing the given output level at the minimum average cost (at lowest point of AC curve), on the other hand in MC, the firm does not operate at the minimum average cost.

Ques. What do you mean by selling cost?

Ans. Meaning: The costs incurred on advertisement, publicity, propaganda, salesmanship, etc, are known as selling cost.

Definition: "Costs incurred in order to alter the position or shape of the demand curve for a product".

-Prof. Chamberlin

"The costs necessary to persuade a buyer to buy one product rather than another or to buy from one seller rather than from another is known as selling cost"..

-Prof. Meyers

"The process of persuading the buyers to buy more at each price is called 'sales promotion', the total expenses involved in sales promotion are called selling costs".

In short, selling cost may be defined as those costs which are incurred by a firm to persuade the customers to buy its product in preference to those of others.

Ques. Write down the forms of selling cost.

Ans. There are two forms of selling cost:

1. Advertising cost: It includes salaries and allowances of salesmen, expenditure on publicity, propaganda, window displays, free supply samples, gift coupons, etc.
2. Facilities given by the firm to wholesalers and retailers (trades): Facilities such as, credit, offer of higher commission, acceptance of unsold stocks, etc.

Ques. Write down the types of advertisement.

Ans. There are two types of advertisement:

1. Informative advertisement: It provides information to the customers about the product, its availability, its uses, its price, etc.
2. Persuasive advertisement: Its aim is to persuade the customers to buy the advertised product of the firm in preference to the products of the rival firms.

Ques. Give the difference between production cost and selling cost.

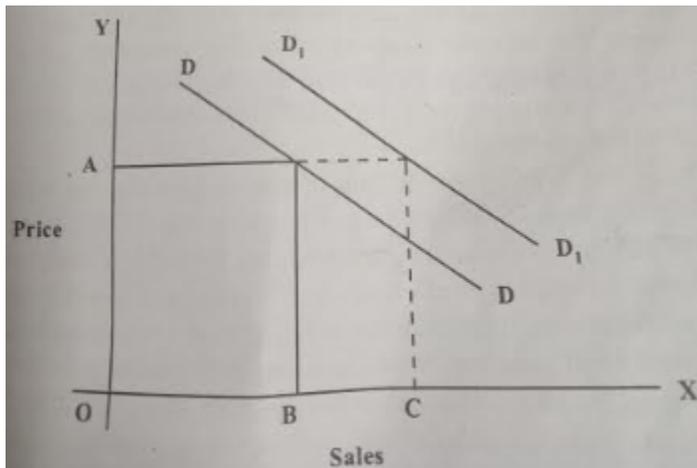
Ans. The difference between both is as follows:

- Production costs are those costs which are incurred by a firm to produce a given product;
- selling costs on the other hand are those costs which are incurred to increase the sale of the product. Thus, production costs adapt commodity to the demand, while selling costs create and shift the demand itself.

Ques. Explain the effects of selling cost on the demand curve of a firm.

Ans. Selling cost affects the demand curve of a firm in two ways:

- A. Selling costs affect the position or location of the demand curve: It can be clearer from the given diagram:

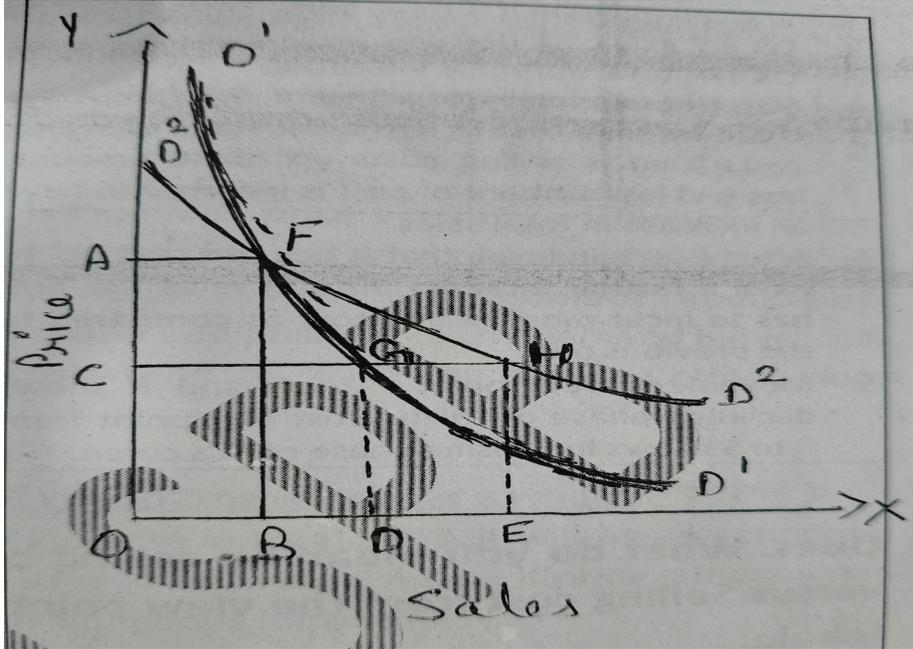


In the given diagram it is clear that,

1. On OY axis Price and on OX axis total sales are indicated.
2. DD is the original demand curve, showing total sales OB at price OA per unit.
3. D'D' is the new demand curve which is upward to the right from the original demand curve, which shows that without decreasing the price, the firm is able to shift its demand curve upward, while incurring advertising expenditure.
4. The new demand curve D'D' shows an increase in total sales up to amount BC, because of selling costs incurred by the firm.

Because of advertising expenditure, more and more people come to know about this product, its quality, its uses, its price, etc, as a result of which there will be an increase in demand and thus in total sales.

- B. Selling costs also affect the shape of the demand curve: The shape of the demand curve will change when selling costs and price reduction takes place simultaneously. Thus, reduction in price together with selling costs will have a remarkable increase in demand and total sales which makes the demand curve more elastic. The given diagram will make it clearer:

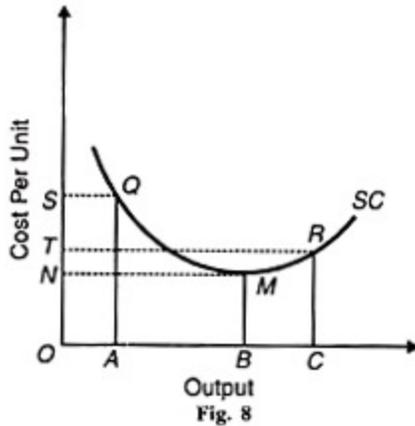


In the given diagram it is clear that,

1. On OY axis Price per unit and on OX axis Total sales are indicated.
2. D_1D_1 is the original demand curve wherein total sales are OB at OA price per unit at point F.
3. Now the firm reduces the price of its product from OA to OC, due to which there is an increase in total sales from OB to OD at point G.
4. At the same time, the firm has incurred selling costs which create a new demand curve D_2D_2 , wherein the total sales Increase, from OD to OE without further reduction in price (point H on new demand curve D_2D_2).
5. The movement from point F to point H shows that the demand curve becomes more elastic due to simultaneous increase in advertising expenditure and price reduction.

Ques. Explain the nature of the selling cost curve.

Ans. According to Prof. Chamberlin, the shape of the selling cost curve is U-shaped which indicates that the curve declines at first, then it reaches the minimum point and after that it starts rising showing increasing in selling cost as there is increase in sales. It can be clearer from the given diagram:



In the given diagram it is clear that,

1. On OY axis Cost per unit (selling cost) and on OX axis Total output is indicated.
2. SC is the sales curve of a firm.
3. It can be seen that at the initial stage of selling costs, that is, selling costs up to MB amount, less and less amount of cost is incurred to have an increase in total sales.
4. After a certain level, that is beyond cost MB, to have a further increase in total sales the firm has to incur more selling cost as compared to the previous one.
5. Movement from point Q to M shows a declining phase of selling cost and point from M to R shows increasing phase of selling cost curve.

Ques. Explain the wastages which take place under the monopolistic competition.

Ans. Prof. Rothschild has mentioned seven kinds of wastages of monopolistic competition which are as follows:

1. Expenditure on competitive advertisement: Incurring advertising expenditure just to remain in the competition is regarded as a waste of monopolistic competition. It is only under monopolistic competition where the firms produce differentiated products which are close substitutes to each other. And to persuade the customers that the product advertised is superior to that of the other products, they spend a large sum of money on advertisements, salesmanship, publicity, propaganda, etc. such expenditures made by different firms are meaningless as it leads to unnecessary competition among rivals and high cost to the consumers.
2. Expenditure on cross transport: Another, waste is the unnecessary and avoidable expenditure on cross transport. This can be clearer with the help of an example, suppose a textile mill of Ahmedabad sells the cloth produced by it in Chennai and at the same time a textile mill of Chennai which is producing more or less similar type of cloth sells it in Ahmedabad. The results will obviously, an increase in the price of cloth just because of the increase in transport cost. It shows wasteful use of transport facilities plus reduction in consumer's surplus.
3. Failure in specialization: The third waste of monopolistic competition is insufficient or inadequate specialization. As we have seen that in monopolistic competition the firms are producing less than optimum output level, which restricts the cost advantages which may arise out of specialization. If the firms adopt a specialization technique of

production, the firms can produce comparatively more output at low cost but if the firm does so then to sell additional output they have to reduce the price (price cut), which they don't want to do. Whereas, in perfect competition all the firms are producing at optimum level.

4. **Excess capacity:** We know that a firm under monopolistic competition does not produce up to the lowest point of average cost curve, the result of which is no fuller utilization of productive capacity, that is, there is excess capacity of the firm which clearly shows wastage of economic and social resources.
5. **Existence of inefficient firms:** Under monopolistic competition, firms produce differentiated products and hence are able to sell them at a price which is different from the price of other firms. Now it is equally possible that the higher price charged by the firm may also be the result of its inefficiency to produce the product at low cost as compared to other firms. And the existence of inefficient firms is clearly undesirable from the viewpoint of the society and should be regarded as an economic waste.
6. **Higher price and less output:** Under monopolistic competition we know that at equilibrium position (MR=MC) average cost is higher (i.e, AC is not at its lowest point) hence the price will also be high. Thus, from the consumer view point, the volume of output available is smaller under monopolistic competition not only this but this smaller output is available at a higher price. To this extent, there is the loss of economic welfare of the society under monopolistic competition.
7. **Unemployment:** We know that there is unused capacity of the firm under monopolistic competition which means that labor along with other factors, remains unutilized. The existence of unutilized man power is clearly a social and an economic waste.

Ques. What do you mean by Oligopoly market competition? Explain its features/characteristics.

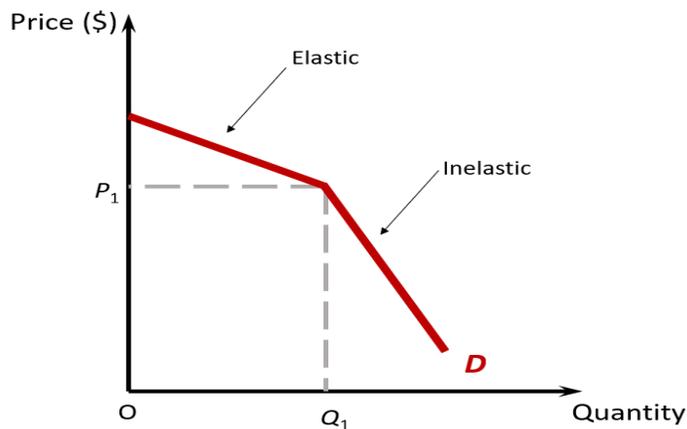
Ans. Its main characteristics are discussed as follows:

1. **Interdependence:** The foremost characteristic of oligopoly is interdependence of the various firms in the decision making. This fact is recognized by all the firms in an oligopolistic industry. If a small number of sizable firms constitute an industry and one of these firms starts advertising campaigns on a big scale or designs a new model of the product which immediately captures the market, it will surely provoke countermoves on the part of rival firms in the industry. Thus different firms are closely interdependent on each other.
2. **Advertising:** Under oligopoly a major policy change on the part of a firm is likely to have immediate effects on other firms in the industry. Therefore, the rival firms remain all the time vigilant about the moves of the firm which takes initiative and makes policy changes. Thus, advertising is a powerful instrument in the hands of an oligopolist. A firm under oligopoly can start an aggressive advertising campaign with the intention of capturing a large part of the market. Other firms in the industry will obviously resist its defensive advertising. Under perfect competition advertising is unnecessary while a monopolist may find some advertising to be profitable when his product is new or when there exist a large number of potential consumers who have never tried his product earlier. But according to Prof. Baumol, "under oligopoly, advertising can become a

life-and-death matter where a firm which fails to keep up with the advertising budget of its competitors may find its customers drifting off to rival products.

3. **Group Behaviour:** In oligopoly, the most relevant aspect is the behaviour of the group. There can be two firms in the group, or three or five or even fifteen, but not a few hundred. Whatever the number, it is quite small so that each firm knows that its actions will have some effect on other firms in the group. In contrast, under perfect competition there are a large number of firms each attempting to maximise its profits. Similar is the situation under monopolistic competition. Under monopoly, there is just one profit maximising firm. Whether one considers monopoly or a competitive market, the behaviour of a firm is generally predictable. **In oligopoly, however, this is not possible due to various reasons:**
 - a. The firms constituting the group may not have a common goal
 - b. The group may or may not have a formal or informal organization with accepted rules of conduct
 - c. The group may be dominated by a leader but other firms in the group may not follow him in a uniform manner.
4. **Competition:** This leads to another feature of the oligopolistic market, the presence of competition. Since under oligopoly, there are a few sellers, a move by one seller immediately affects the rivals. So each seller is always on the alert and keeps a close watch over the moves of its rivals in order to have a counter-move. This is true competition, "True competition consists of the life of constant struggle, rival against rival, whom one can only find under oligopoly.
5. **Barriers to Entry of Firms:** As there is keen competition in an oligopolistic industry, there are no barriers to entry into or exit from it. However, in the long-run, there are some types of barriers to entry which tend to restrain new firms from entering the industry. **These may be:**
 - a. Economics of scale enjoyed by a few large firms;
 - b. Control over essential and specialized inputs;
 - c. High capital requirements due to plant costs, advertising costs, etc.
 - d. Exclusive patents; and licenses; and
 - e. The existence of unused capacity which makes the industry unattractive.
 - f. When entry is restricted or blocked by such natural and artificial barriers the oligopolistic industry can earn long-run supernormal profits.
6. **Lack of Uniformity:** Another feature of the oligopoly market is the lack of uniformity in the size of firms. Firms differ considerably in size. Some may be small, others very large. Such a situation is asymmetrical. This is very common in the American economy. A symmetrical situation with firms of a uniform size is rare.
7. **Existence of Price Rigidity:** In an oligopoly situation, each firm has to stick to its price. If any firm tries to reduce its price, the rival firms will retaliate by a higher reduction in their prices. This will lead to a situation of price war which benefits none. On the other hand, if any firm increases its price with a view to increase its profits; the other rival firms will not follow the same. Hence, no firm would like to reduce the price or to increase the price. The price rigidity will take place.

8. **No Unique Pattern of Pricing Behaviour:** The rivalry arising from interdependence among the oligopolists leads to two conflicting motives. Each wants to remain independent and to get the maximum possible profit. Towards this end, they act and react to the price-output movements of one another which are a continuous element of uncertainty. On the other hand, again motivated by profit maximisation each seller wishes to cooperate with his rivals to reduce or eliminate the element of uncertainty. All rivals enter into tacit or formal agreement with regard to price-output changes. It leads to a sort of monopoly within oligopoly. They may even recognize one seller as a leader at whose initiative all the other sellers raise or lower the price. In this case, the individual seller's demand curve is a part of the industry demand curve, having the elasticity of the latter. Given these conflicting attitudes, it is not possible to predict any unique pattern of pricing behaviour in oligopoly markets.
9. **Indeterminateness of Demand Curve:** In market structures other than oligopolistic, the demand curve faced by a firm is determinate. The interdependence of the oligopolists, however, makes it impossible to draw a demand curve for such sellers except for the situations where the form of interdependence is well defined. In real business operations, the demand curve remains indeterminate. Under oligopoly a firm can expect at least three different reactions of the other sellers when it lowers its prices.



This happened due to the reason:

- It is possible that others maintain the prices they had before. In this case, an oligopolist can hope that its demand would increase substantially as the prices are lowered,
- When an oligopolist reduces his price, the other sellers also lower their prices by an equivalent amount. In this situation, although the demand of the oligopolist making the first move will increase as he lowers his price, the increase itself would be much smaller than in the first case.
- When a firm reduces its price, the other sellers reduce their prices far more. Under the circumstances the demand for the product of the oligopolistic firm which makes the first move may decrease. Thus uncertainty under oligopoly is inevitable, and as a result, the demand curve faced by each firm belonging to the group is necessarily indeterminate.

Ques. Explain the price output determination of a firm working under oligopoly market with the help of Price leadership model.

Ans. As we know that the nature of the demand curve in oligopoly competition is not possible to be determined in a fixed/ particular way. Meaning, there is indeterminateness of demand curve, the reason is interdependence of firms and their conflicting attitudes.

Hence, due to this indeterminateness of demand curve, there is no single way to decide the price and output of a firm.

There are many possible solutions of which the main ones are as follows: Kinked-demand curve model, Price leadership model, Collusive oligopoly model, Game theory model

Let us explain how the 'Price Leadership' model helps the oligopoly firm to determine its price and output level.

- Price leadership model explains the upward adjustment of prices (increase in price) in oligopoly markets. Under this model, one of the oligopoly firms acts as price leader which determines and fixes the price and this price is accepted by all other firms in the industry. The firm which takes the initiative in announcing its price changes is called the "price leader". All other firms in the industry are termed as price followers. Thus, for example, General Motors is considered as the price leader of the American car industry, Ambuja cement company is the cost leader in the Indian cement industry, etc.
- Types of Price Leadership- There are 3 types of price leadership:
 1. Barometric price leadership: In barometric price leadership, that firm is appointed as a leader who performs as a barometer of market changes. Meaning the firm which is able to forecast future market changes more accurately than other firms; that firm will be selected as a leader. Now, the firm which is the leader will be the price maker and other existing firms will be the price taker, that is, the price follower. Thus, an experienced firm which possesses an ability to accurately predict demand conditions and knowledge of market supply; takes leadership in fixing the price.
 2. The dominant firm price leadership: Here the dominant firm will be the price leader. That firm will be appointed as a dominant firm which shares away the highest portion of the market output. Meaning, the firm whose total sales is highest as compared to the other firms, that firm is a dominant firm. Now this dominant firm will fix the price per unit (keeping in mind its own profit) and other firms will just follow the price and adjust their output accordingly.

In this type of price leadership, small firms are unwilling to take any risk of 'price change', because they are not having enough power (share in market) to effect the prevailing market price; and compel other firms to follow the same. Whereas, the dominant firm fully knows that the small firms will follow its price and therefore it chooses that price where it can itself earn maximize profits.

3. The low cost price leadership: In oligopoly market competition sometimes that firm works as a leader who is able to produce the product at lower cost than that of other firms. And as other firms are not able to produce their product at lower cost, willingly or unwillingly they have to follow the price determined by the leader.
- Essential conditions of Price Leadership: For a firm to be a price leader, the following main conditions should be fulfilled:

1. Low cost production and adequate financial resources to withstand the losses of a price war.
2. Substantial share in the market.
3. Reputation for sound pricing policy/decisions based on better and nearly more appropriate market forecasting.
4. Initiative: The firm must have initiative power meaning when it comes to increasing the price of the product, the firm must be the first to raise the price, that is, the risk of increasing the price must be taken by the leading firm.
5. Aggressive pricing policy: It may be known as that pricing policy which is aggressive in nature. Meaning the firm deciding price of the product may prove disadvantageous to the other firms but other firms have to follow that price as they are unable to lower the price of their product as compared to the price of the leading firm of the industry.

Ques. Write down the characteristics of price leadership.

Ans. The main characteristics of price leadership are as follows:

1. Usually a price leader firm makes few but large and useful price changes which is beneficial from the viewpoint of the industry and the society as a whole.
2. Generally the price leader proves him when it comes to price rise; in case of price reduction the leader becomes a follower.
3. Generally the price leader changes the price only when he feels that the change in demand for the industry product and production cost conditions is of a permanent nature. Meaning, the future change in demand for the product and production cost is for a long time.
4. The price leader must also be ready to incur the risk of a price war in order to establish and maintain his leadership.
5. The price leader has a significant role to play in forecasting the demand effectively and accurately.
6. When it comes to quality, service and reputation in an industry, the price leader processes him the best in providing such services and charges a slightly higher price.
7. Once the price leadership is established, it is sustained even by the followers.
8. Usually the price leader takes a long run view point before making any price changes, that is, he is willing to sacrifice short term benefits for long run benefits.

Ques. Explain the advantages of price leadership.

Ans. Following are the advantages of price leadership:

1. Very often the small firms are having less knowledge about the market conditions and costing principles. A big firm with an efficient costing department to fix pricing policy, may prove helpful to the small firms.
2. Price leadership is an easy method of pricing as it requires a simple causal enquiry as to the prices of other firms.
3. It avoids the expense of production and cost studies as also market surveys to estimate the demand.
4. The executives of the price leader firm are quite competent in their pricing judgments so that other firms feel quite safe in following its leader.

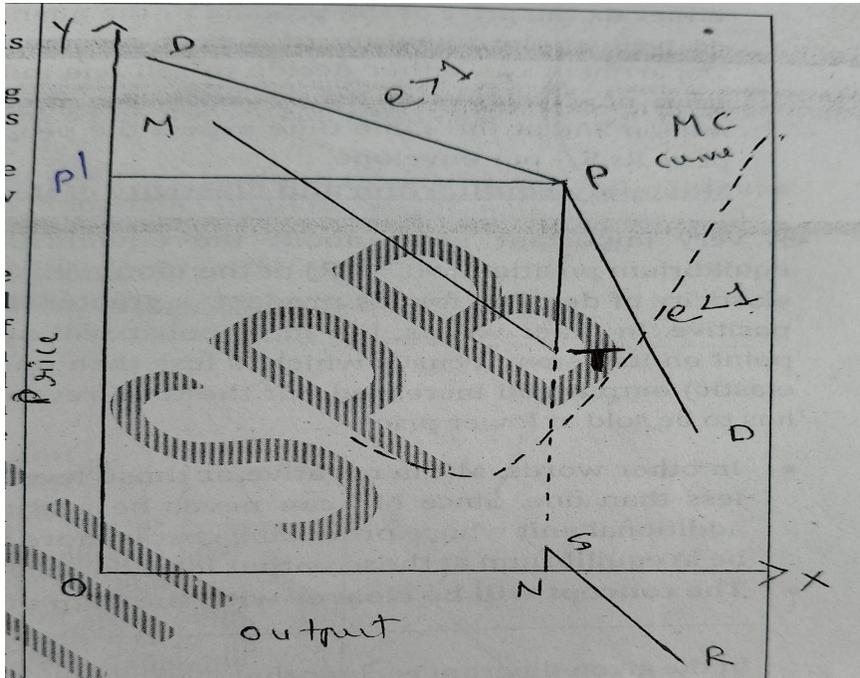
5. Price leader tends to keep the price stable [even in the period of recession] and it usually keeps to avoid price wars.
6. It is perhaps due to price leadership that prices have not gone as high in boom periods or as low in depression as they would have otherwise gone. Meaning, it is because of the presence of price leadership that the Industry is not adversely affected by trade cycles [cyclical fluctuation].
7. Under price leadership, all firms know that price-war is simply destructive in nature. Hence there is an implicit idea of a "live and let live".
8. Due to price leadership, there lies an element of certainty to the pricing aspects of market forecasting. Meaning, the conflicting attitudes of firms will be reduced in the presence of price leadership.

Ques. What is oligopoly? Explain price rigidity under oligopoly in terms of kinky demand curve.

Ans. It is impossible to find a single generalized solution to the problem of oligopoly pricing. This has become the difficulty of knowing the exact position of the demand curve facing a firm under oligopoly. This in turn is due to the fact that the effect of a given price change by a seller on the demand for this product depends very much on the reaction of his rivals; hence rival consciousness is a basic characteristic of oligopolistic situations.

There is however, one particular shape of demand curve under oligopoly which has become very popular, i.e., the kinky demand curve.

The kinked demand curve model was first used by Paul M. Sweezy in 1939, in his article "Demand under Condition of Oligopoly" to explain price rigidity under condition of oligopoly. The assumption behind the theory of kinked demand is that each firm under oligopoly will act and react in a way that keeps conditions tolerable for all firms in the industry. Meaning the kink in the demand curve is always at the ruling price. Taking the ruling price as given, it assumes that a rise in price (beyond the ruling price) by an oligopoly firm, will not invite retaliation from the rival firms. Rather the rival firms will allow the firm to raise his price and lose his customers. Whereas a price cut by a firm will invite immediate retaliation from the rival firms who wish to protect their demand curve which is less elastic as compared to the upper part which is comparatively more elastic.



From the given diagram it is very clear that,

1. On OY axis price per unit and on OX axis Output is indicated.
2. DD is the demand curve having kink (at point P) where the ruling price is OP' and output is ON.
3. MR (MTSR) is the Marginal Revenue Curve having discontinuity just below the point corresponding to the kink.
4. MC is the Marginal Cost Curve.
5. The equilibrium of the firm will be at the point where MR equals MC. We shall further notice that, because of discontinuity in the MR curve, Shifts in the MC curve between the point "T" and 'S' will not alter the equilibrium position as regards, output and prices. The equilibrium output is ON.
6. The upper part of the demand curve (DP) is more elastic because a rise in price by a firm is not followed by its rivals. In short, Rival firms give less response towards a price rise by a firm.
7. The lower part of the demand curve (PD) is less elastic because a fall in price by a firm will be immediately followed by its rivals. In short, a rival firm gives more response towards a fall in price by a firm.

In short, the kinky demand curve has the kink in the curve at the ruling price. None of the firms under oligopoly wants to make changes in the ruling price. The upper portion of the demand curve is, more elastic which shows that with a slight increase in price (rise in price) there will be a remarkable fall in its total sales and the lower portion of the demand curve is less elastic which shows that with a slight fall in price there can be a remarkable rise in the total sales of a firm hence the other firms immediately follows the price cut by a firm.

Ques. "A monopolist can either decide the supply of the product or the price of the product. He cannot determine both of them." Examine the statement in the light of price determination under monopoly.

Ans. A monopolist has complete control over the supply of the product because there are no rival firms and therefore he has control over the price also. A firm, thus, has to decide not only the total volume of output which it has to produce, but also the price which it should charge for the product.

From the above discussion it seems that a monopolist has control over the supply of the product as well as over its price. But in fact it is not so. A monopolist cannot have it both ways; he cannot fix both the price of the product as well as the output to be sold. He can either fix the price of the product or the quantum of the product; he cannot fix the price as well as the quantum of output simultaneously.

Thus for example, the Indian Postal Department can either decide to sell one million envelopes per year or it may fix the price of envelopes at Rs. 5/- each. But it cannot fix the supply of envelopes at one million and at the same time expect the people to buy all one million envelopes at the price Rs.5/- per envelope.

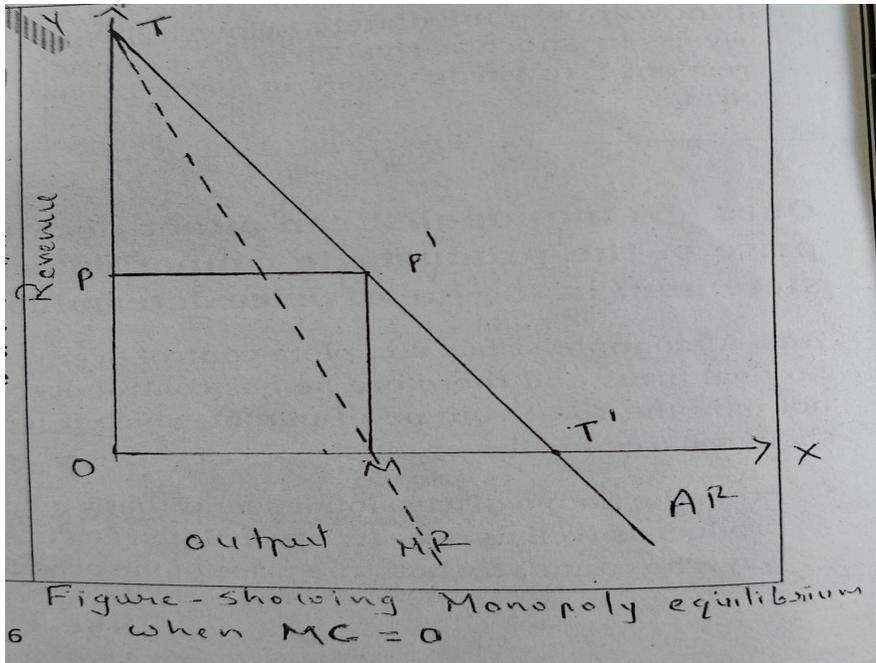
Monopoly Equilibrium and Elasticity of Demands:

A very important point about the equilibrium position of the monopolist is that, equilibrium position ($MC=MR$) of the monopolist will always lie at that output level where elasticity of demand for his product is greater than one ($e>1$), provided that his costs are positive.

In other words, the monopolist will never fix the output of his product at that point on its demand curve which is less than one (less elastic). Because at that point (less elastic) output will increase but the total revenue will decrease as that increased output has to be sold at lower price.

In other words, MR is negative at those levels of output where elasticity of demand is less than one. Since MC can never be negative (because firms will not produce that additional unit whose producing cost is more than its MR), therefore monopolists cannot be in equilibrium at those output levels whose elasticity of demand is less than one.

The concept will be clearer with the help of a diagram:



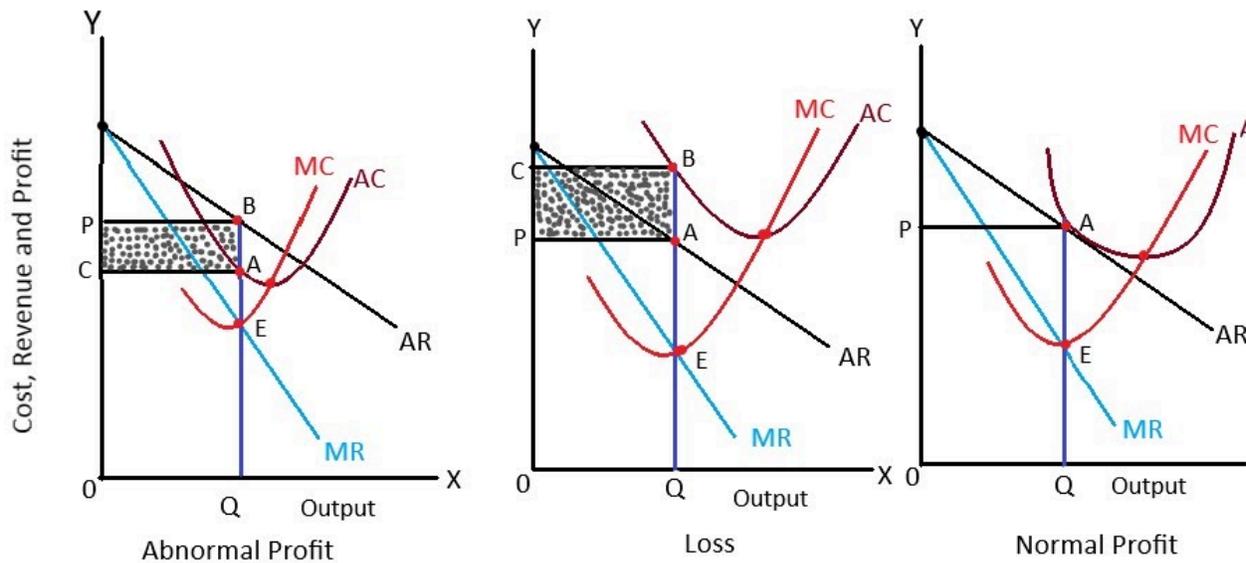
In the given diagram is clear that,

1. The equilibrium position of the monopolist will be at output OM and price $OP (=MP')$.
2. At OM output, MR is equal to zero. Therefore marginal revenue is equal to marginal cost.
3. It will be seen that P' is the mid-point of the line TT' where the elasticity of demand is unites (equal to one). Therefore, when marginal cost is zero, the equilibrium of the monopolist is established at that output where elasticity of demand is unity.

Ques. How does a firm attain short run and long run equilibrium conditions under monopoly?

Ans. The firm will be in equilibrium and determines that output and price per unit, where marginal cost will be equal to marginal revenue.

In the short run when a monopoly firm is in equilibrium position ($MC = MR$), the firm may earn supernormal profit or it may incur losses, depending upon the position of average total costs (ATC). The above stated situations may be clearer with the help of diagrams:



Short run equilibrium of a monopoly firm

1. Monopoly firm earning supernormal profit:- ($AC < AR$)

In the given diagram:-

1. On OY axis revenue/Cost is indicated and on OX axis output is indicated.
2. AR and MR are average revenue and marginal revenue curve, wherein MR lies below AR in such a way that the whole portion (AR to y axis) is divided into two equal parts.
3. MC is marginal cost curve.
4. Point E is the equilibrium point ($MR = MC$) and the firm produces OQ output at AQ (OP) price per unit.
5. SAC is the short run average revenue cost curve which lies below average revenue at the given output level OQ.
6. As it is clear that at OQ output level AR is "AQ" and AC is "BQ" which is less than "AQ". Hence, the firm is earning supernormal profits up to area "PABC".

2. Monopoly firm earning normal profit:: ($AC = AR$)

In the given diagram it is clear that,

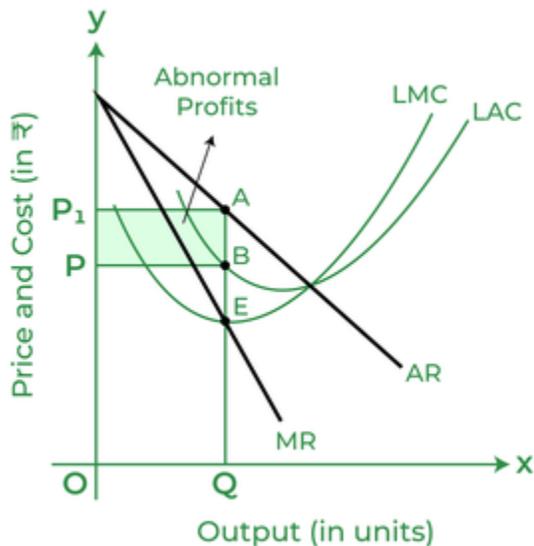
1. The firm is equilibrium at point E ($MR = MC$) where the output determined is OQ and price is OP per unit.
2. It is very clear that, at the given output level OQ, $AC = AR$ which proves that the firm is earning only normal profit.

3. Monopoly firm earning/incurred losses: ($AC > AR$)

In the given diagram it is clear that,

1. The firm is in equilibrium at output OQ and price OP and at the same time firm's demand curve (AR) lies below AC curve,
2. So the firm is incurring a loss equal to area PABC.

- Long run equilibrium of a monopoly firm-(firm earns supernormal profit): ($AC < AR$)
- Monopoly firms in the long run get abnormal profits, it is so because the new firms are not allowed to enter the market. To earn super profit $LAR > LAC$.
- Under the long run a monopoly firm can produce at optimal or sub-optimal level. In other words, it can produce at minimums LAC curves and also it can produce before or after the minimum LAC curve.



In given figure,

1. Firm's equilibrium is attained at point E where the firm's LMC intersects MR.
2. At equilibrium price OP_1 the firm produces OQ output.
3. Since at the output level OQ firm's AR is more than its LAC, it gets profit AB per unit.
4. Total profit being equal to the shaded area P_1ABP .

Ques. What do you mean by price discrimination?

Ans. Meaning: Price discrimination occurs when a producer sells a specific commodity or service to different buyers at different prices for reasons not related with difference in cost.

In simple words, price discrimination means charging different prices from different customers or different groups of customers for a similar product or service. Railways, Doctors, Lawyers, Chartered Accountants, etc are the examples of discriminating monopoly.

Definitions: "The act of selling the same article produced under a single control at different prices to different buyers is known as price discrimination".

By-Prof. Mrs. Robinson

"Discriminating monopoly or price discrimination occurs when a monopolist charges different prices for different units of a commodity even though these unities are in fact homogeneous in so far as their physical nature is concerned".

By-Prof. Stonier and Hague

Ques. Explain the forms of price discrimination.

Ans. Forms of price discrimination price discrimination may take various forms of which the most common forms are as follows:-

1. Personal discrimination: Personal discrimination occurs when different prices are charged from the different buyer's according to their desire. Thus for eg. Railways. Doctors, lawyers, and chartered accounts charge different rates for their services that vary according to the income of their clients.
2. Age discrimination: Price discrimination may also be practiced on the basis of the age of the buyers. Usually buyers are grouped into children, adults, senior citizens. physically handicapped, etc. thus for eg. in Indian railways, senior citizens, that is, persons above the age of 60 are given 30percent concession in tickets.
3. Local discrimination: When a monopolist charges different prices in different markets located at different places, it is known as local discrimination. For e.g. a film producer may sell discrimination rights of his pictures to different firms in different territories at different prices.
4. Trade discrimination: When a monopolist charges a lower price for one trade or use than for another trade or use it is known as treads discrimination. For e.g., an electricity distributing company may charge lower rates for industrial use and a higher rate for domestic use.
5. Time discrimination: On the basis of time of service provided, different rates may be charged. For instance, the owner of a cinema house may charge lower rates for morning and matinee shows than for evening and night.
6. Size discrimination: On the basis of size of the product, different prices may be charged. For e.g., an economy size toothpaste is usually available at a lower price than the small one.
7. Quality variation discrimination: When different prices are charged for the same product on the basis of same quality differences it is known as quality variation discrimination. Thus, for instance, the detune edition of a particular its paper-back -edition.

Ques. Write a note on degrees of price discrimination.

Ans. According to Prof. AC Pigou, there are 3 degrees of discrimination as under:

1. P.D. of first Degree: In the first degree P.D., the monopolist finds out the maximum price which a consumer is to pay for different units of the product or service. By charging different prices for different units, the monopolist takes away the entire consumer's surplus of the buyers. Obviously, this involves maximum exploitation of buyers. For instance, a surgeon may charge different fees from different customers for same operation. And he will take the maximum fees which a consumer (patient) is able to pay rather than go without the service (operation).
2. P.D. of second degree: Here the monopolist takes away only a part and not the whole of the consumers' surplus. In this case, the product is divided into different blocks of units and for each block, a different price is charged. Thus for e.g., an electricity company may charge a higher rate for the first few units (say 100units) of the electricity consumed, a lower rate for the next few and so on.

3. Here the monopolist divides the consumers into separate groups or markets according to their incomes, location, types of uses of the Product and different prices from each group of consumers, though the cost of serving each group of buyers is the same. Thus for e.g., air companies charge regular and "special" airline fares; likewise, certain producers offer some discount to the student, and senior citizens.

Ques. What is price discrimination? Under what circumstances it is possible and profitable.

Ans.

- Prof. Sligher has given the following condition under which price discrimination is possible and profitable:
 1. Price discrimination is possible under monopoly.
 2. A monopolist can involve (practice) in P.D. successfully only when he has before him at least two or more. Then two markets for his product or service: thus for example, the owner of a cinema house has different markets or groups of buyers like balcony, first class, second class and so on.
 3. The elasticity of demand for the product should be different in the market.
 4. The cost of keeping the different markets separate must not be high in proportion to the differences in the elasticities of demand.
- According to prof. A.C. Pigou, P.D. is possible and profitable under the following conditions:
 1. The demand for the product or service must not be transferable from the high-priced market to the low-priced market. For e.g., if a person in a higher-income group does not buy deluxe editions and waits for paper-back editions to purchase, then in such cases p.d. is not possible.
 2. There should not be any possibility of resale of the product or service from the consumers in the low-priced market to the consumers in the high-priced market. Thus for example, if industrial users of cheap electricity can use it for direct consumption to domestic users, there will not be two rates for the electricity consumption.
- According to prof. Stonier and Hague P.D becomes possible because of the following factor.
 1. Price discrimination becomes possible on account of ignorance or laziness of the buyers.
 2. Let-go attitude of the buyers: many times, the buyers have a tendency to ignore small differences in price.
 3. Consumers' illusion becomes possible when consumers have an irrational feeling that because they are paying a higher price for the product, they receive a better and a higher quality product.
 4. Price discrimination is often noticed when markets are separated by distance or tariff barriers, so that it becomes expensive to transfer goods from a cheaper market to be resold in the dearer market. This kind of price discrimination is known as dumping and is often noticed when markets are protected by tariffs on imports.
 5. Nature of the commodity or service: here p.d. is possible particularly when the commodity in question is a direct service. For e.g., services of a lawyer, a teacher, an engineer etc., since resale of such direct services is not possible, different customers.

6. Legal sanction: there may be legal sanction for price discrimination. For instance Gujarat & electricity board charges a lower rate of power-tariff for agricultural use and a higher tariff rate. For industrial and domestic use.