Economics

(Micro-economics)

Chapter 6: NON-COMPETITIVE MARKETS

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Important Questions

Multiple Choice questions-

Question 1. Which of the following is not the feature of an imperfect competition?
(a) Large number of buyers
(b) Single seller
(c) Homogeneous products
(d) Price maker

Question 2. A monopolist is a price
(a) Acceptor
(b) Taker
(c) Giver
(d) Maker

Question 3. The firm and the industry are one and the same in:
(a) Monopolistic competition
(b) Monopoly
(c) Duopoly
(d) Oligopoly

Question 4. Which of the following is not a characteristic feature of imperfect competition?
(a) Prices vary from seller to seller
(b) All the products are homogeneous
(c) Profits of the seller is included in the price
(d) None of above

Question 5. Market which has two firms is known as
(a) Duopoly
(b) Monopolistic Competition
(c) Oligopoly
(d) None of These

Question 6. Under which of the following forms of market structure a firm has no control over the price of its product?
(a) Monopoly
(b) Perfect competition
(c) Oligopoly
(d) Monopolistic competition

Question 7. Oligopoly having identical products is known as
(a) Pure oligopoly
(b) Collusive oligopoly
(c) Independent oligopoly
(d) None of above

Question 8. Price discrimination can take place only in
(a) Perfect competition
(b) Oligopoly

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(c) Monopolistic competition
(d) Monopoly

Question 9. Which market have characteristic of product differentiation
(a) Monopolistic competition
(b) Oligopoly
(c) Monopoly
(d) Perfect competition

Question 10.
Under monopoly form of market, TR is maximum when
(a) MR is maximum
(b) MR < 0
(c) MR > 0
(d) MR is zero

Very Short-

1. What would be the shape of the demand curve so that the total revenue curve is a positively sloped straight line passing through the origin?

2. What would be the shape of the demand curve so that the total revenue curve is a horizontal line?

3. Will the monopolist firm continue to produce in the short run if a loss is incurred at the best short run level of output?
4. Explain why the demand curve facing a firm under monopolistic competition is negatively sloped.
5. List the three different ways in which oligopoly firms may behave.

Short Questions-

1. Equilibrium price of an essential medicine is too high. What can be done to bring the price down only through market forces? Explain the series of changes that will occur in the market.

2. Market for a necessary good is competitive in which the existing firms are earning supernormal profits. How can the policy of liberalisation by the government help in making the market more competitive in the interest of the consumers? Explain.

3. Explain the effects of a 'price ceiling'.

4. Explain the effects of a 'price floor'.

5. Market for goods is in equilibrium. Demand for the good "increases". Explain the chain effects of this change.

Long Questions-

1. Distinguish between collusive and non-collusive oligopoly. Explain how the oligopoly

firms are interdependent in taking price and output decisions.

2. Explain the implications of the following features of the oligopoly market.

(i) Few firms

(ii) Barriers to the entry of firms

3. Explain the implications of the following:

(i) Products under monopolistic competition

(ii) Large number of sellers under perfect competition

4. Distinguish between perfect competition and monopolistic competition

5. Explain the implications of the following features of perfect competition.

(i) Homogenous products

(ii) Freedom of entry and exit to firms.

MCQ Answers-

1. Answer: (c) Homogeneous products
2. Answer: (d) Maker
3. Answer: (b) Monopoly
4. Answer: (b) All the products are homogeneous
5. Answer: (a) Duopoly
6. Answer: (b) Perfect competition
7. Answer: (a) Pure oligopoly
8. Answer: (d) Monopoly
9. Answer: (a) Monopolistic competition
10. Answer: (d) MR is zero

Very Short Answers-

1. Ans: If the total revenue curve is a positively sloped straight line passing through the origin, then the slope of the demand curve will be a horizontal line parallel to the *x*-axis.

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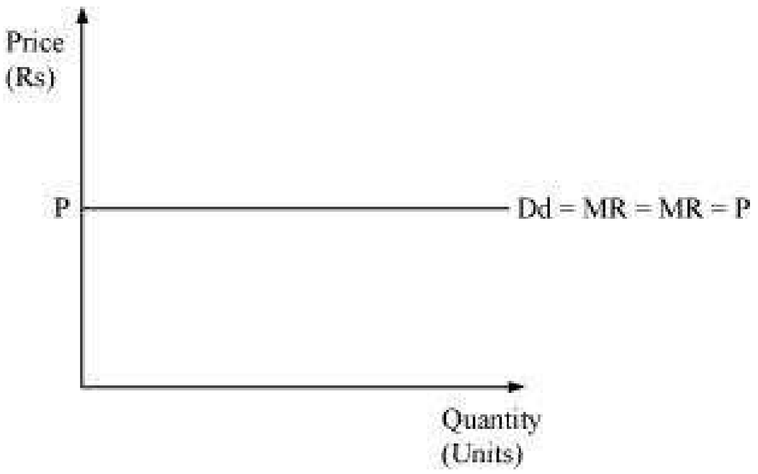
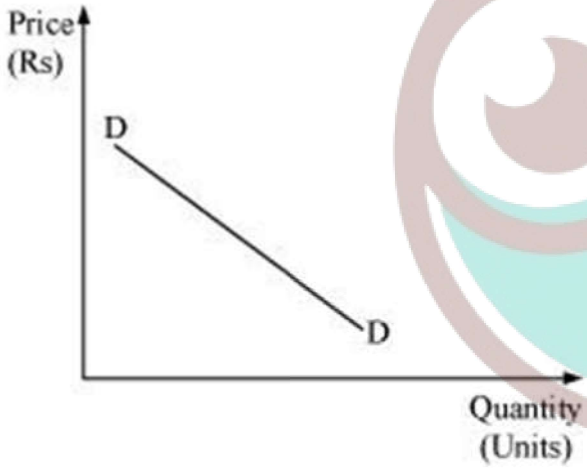


2. Ans: If the total revenue curve is a horizontal line, then the demand curve will be downward sloping.



3. Ans: A monopolist firm can earn losses in the short run if the price is less than the minimum of AC. But if the price falls below the minimum of AVC, then the monopolist will stop production. The firm will continue to produce when the price is in between the minimum of AVC and the minimum of AC.

4. Ans: A monopolistic firm has differentiated products; thus, it has to lower its price in order to increase its sales. Further, the products of different monopolistic firms are close substitutes to each other. Hence, the demand for all the products is elastic. For this reason, the demand curve is negatively sloped.

5. Ans: Oligopoly firms may behave in the following three ways:

1) Cartel
2) Informal understanding
3) Advertisement and differentiated product

Short Answers-

1. Ans: Since medicine is a necessary good, its demand will be perfectly elastic.

The equilibrium price determined by market forces of demand and supply is excessively high.

Because it is a necessity, an increase in price will not result in a decrease in demand, so the government should increase its supply. The government should reduce taxes or provide subsidies to increase its supply.

The supply curve shifts to the right as the demand rises, and the new equilibrium point is determined at point E1.

Because it is an essential good, it causes a decrease in equilibrium price from OP to OP1 but no change in equilibrium quantity (OQ).

(Image will be uploaded soon)

2. Ans: The liberalization strategy promotes new enterprises to enter the industry. This boosts the industry's overall output. The total market demand stays steady, and prices begin to fall. As a result, consumers receive things at significantly lower prices.

Liberalization policies will remove market barriers such as licensing quotas. As a result, new firms will enter the industry. This will increase market supply and make the market more competitive. Inferring a shift to the right in the market supply curve. Other things being equal, a rightward shift in the market supply curve will result in a decrease in equilibrium price and an increase in equilibrium quantity. Extraordinary profits will eventually be wiped out, and consumers can expect to enjoy a greater quantity at a lower price.

3. Ans: Black marketing can be defined as a direct result of a price ceiling. It denotes a circumstance in which a commodity subject to the government's control policy is illegally sold at a greater price than that set by the government. It may occur primarily as a result of the presence of consumers who are willing to pay a higher price for the commodity rather than go without it.

4. Ans: Buffer stock is an important instrument in the government's arsenal for ensuring a price floor or minimum support price. If the market price is less than what the government believes should be paid to farmers or producers. This will cause them to purchase the product at a higher price from the farmers or producers in order to have stock of the commodity on hand in case of future shortages.

5. Ans: ‘Given equilibrium, demand rises,' the following are the chain effects of the change:

i. If the price remains constant, excess demand emerges.

ii. As a result of the increased rivalry among purchasers, prices rise.

iii. A price increase produces a decrease or contraction in demand and an increase or expansion in supply.

iv. The price continues to rise until the market returns to equilibrium at a higher price.

Long Answers-

1. Ans: The following points focus on the distinction between collusive and non-collusive oligopoly: -

There is also a significant degree of interconnectedness between enterprises in an oligopoly. The price and production policy of one firm has a significant impact on the price and output policy of the market's rival enterprises. The reason for this is that there are only a few large corporations. When one company cuts its pricing, competitors may follow suit in order to compete. On the other hand, if one company raises the price of a specific commodity, rival enterprises may make a decision in response. Enterprises always consider the likely reaction of the market's dominant rival companies when making price and output decisions.

2. Ans: The implications of the given features of oligopoly market are as follows:

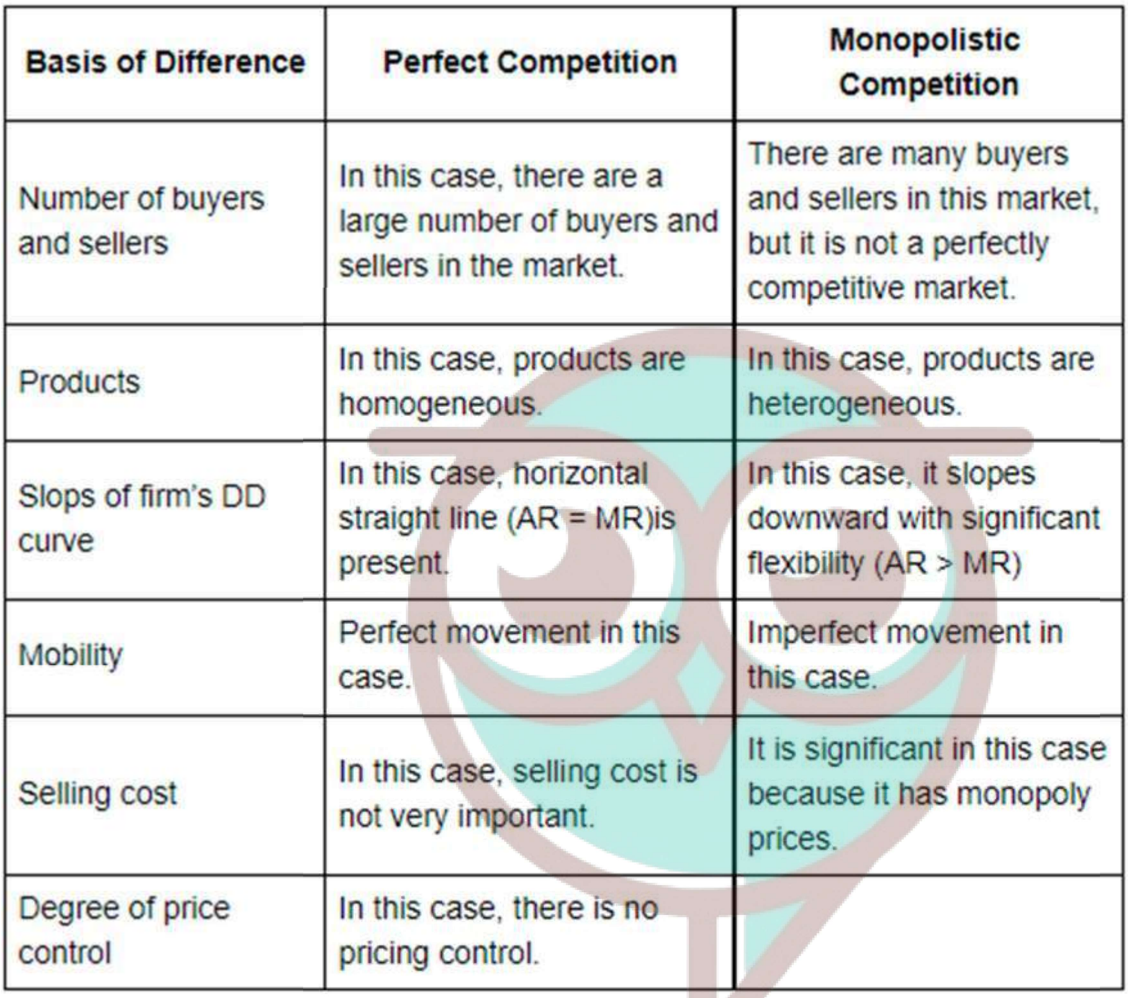
(i) Oligopoly occurs when there are just a few firms in a market. However, each company is so large that it has a monopoly on a specific customer section of the market. It is so significant that the price or production policy of one firm has a direct impact on the price and output policy of competitors. As a result, drawing a precise demand curve for an oligopoly firm is likewise impossible. We have shown that oligopolistic enterprises seek to form trusts and cartels in order to avoid market pricing competition. They benefit from monopoly earnings in this manner. However, this is a very small proportion of the whole market.

(ii) It is usually more when there are barriers to firm admission. These restrictions are nearly identical to those seen in monopolistic circumstances. It is highly difficult, but not impossible, for a new firm to enter the market. These barriers might be natural, such as the need for large amounts of cash or the need to operate at the lowest possible cost, or artificial, such as patent rights. They mostly keep new entrants out of the market.

3. Ans: (i) When a product is subject to monopolistic competition, this has ramifications. It is a distinguishing trait. A product is frequently differentiated by trade marks or brand name, size, number, and so on. The differentiated products are typically close alternatives for each other. Bagh bakri tea and Tajmahal tea are two examples. Because of product differentiation, each firm can choose its own price policy. As a result, each firm has a limited amount of control on the pricing of its product. This is done to entice buyers from competing companies. Also, because these companies produce in large quantities and their products are unique, they always have some devoted customers who buy these things and just these products.

(ii) When there are a lot of sellers on the market. In an economy, there are always more consumers and sellers. As a result, the size of each economic agent in comparison to the market is so small that they cannot influence the price through their individual actions.

4. Ans: The following are the distinctions between perfect and monopolistic contest:



Basis of Difference	Perfect Competition	Monopolistic Competition
Number of buyers and sellers	In this case, there are a large number of buyers and sellers in the market.	There are many buyers and sellers in this market, but it is not a perfectly competitive market.
Products	In this case, products are homogeneous.	In this case, products are heterogeneous.
Slops of firm's DD curve	In this case, horizontal straight line (AR = MR)is present.	In this case, it slopes downward with significant flexibility (AR > MR)
Mobility	Perfect movement in this case.	Imperfect movement in this case.
Selling cost	In this case, selling cost is not very important.	It is significant in this case because it has monopoly prices.
Degree of price control	In this case, there is no pricing control.	

5. Ans: (i) The ramifications of homogeneous products are significant. This essentially means that the products are the same in terms of nature, quality, size, shape, and color. As a result, no producer is able to demand a different price for the product. The market has consistent pricing. Commodity must always be identical in a totally competitive market. As a result, it gives consumers or buyers no incentive to prefer one seller's product over another.

(ii) Enterprises have the freedom to enter and quit the market. When a company decides to depart or enter a market, it is entirely up to them. In this case, enterprises can only generate regular profits in the long run, with TC=TR, AR=MR, and P=MC. In exceptional circumstances, if typical profits are achieved, new firms will enter the industry, resulting in an increase in market supply. Marek's price will fall, and any extra earnings will be lost. In the event of unusually large losses, some of the existing enterprises will abandon the industry. Marek supply will be reduced, and the commodity's market price will rise. Extraordinary losses will be erased.