Unit - IV

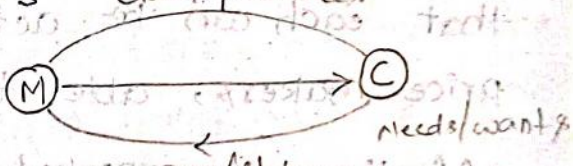
Market Analysis

1. price output determination in (monopoly) perfect & imperfect competition
2. profit meaning and profit Theories
3. profit planning measurements

Market:

Market is a place where goods or services are exchange one to another. In market two types of people are involved. Those are: (1) Buyer's (2) seller's

Ex: vegetable market, Fish market



Marketing:

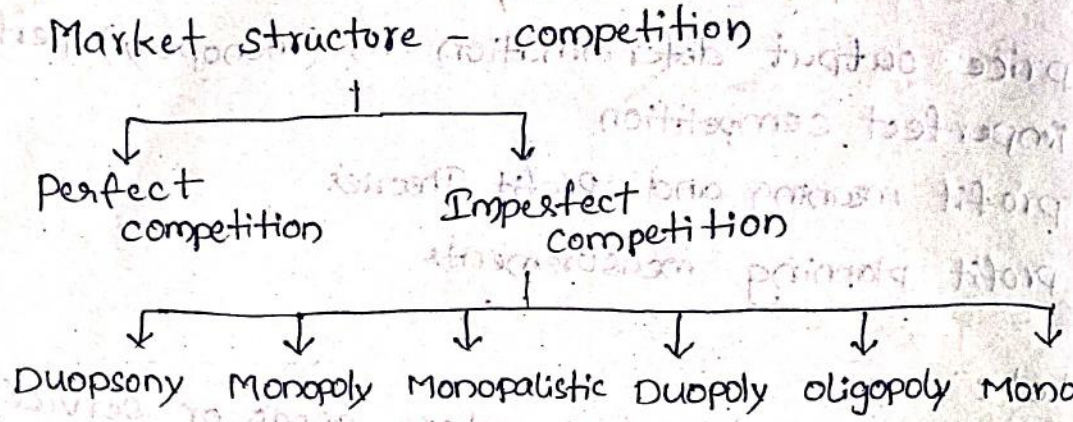
Marketing is a systematic process where goods & services are transferred from manufacture to customers with an altimate aim of getting profits and satisfying the needs and wants of the customers.

Size of the market:

Size of the market depends on characteristics of the market and their influences on performance of the firm.

1. The degree of buyer's concentration
2. The degree of seller's concentration
3. The degree of product differentiation
4. product offerability (quality & Availability)
5. The degree of entry and exist from the market

Market structure :-



1. Perefect competition :

Perfect competition means an ideal market situation in which buyer's and seller's show numerious and informed that each can be act as a price takers rather than price makers, & able to buy or sale any desire quantity affecting the market price. There is a freedom of entry and exit from the industry in the

Features of perfect competition :

1. Large no. of buyer's and seller's.
2. Firms can easily enter and exist from the market
3. NO government restrictions.
4. Price takers.
5. Product homogenity (similiar)
6. Perfect information available to buyers and sellers

1. Large no. of buyer's & seller's :

In perfect competition, there are large no. of buyer's and seller's in the market. The individual firm as a buyer and seller is simply price taker.

2. Firms can easily enter & exist from the market :

In perfect competition market, the firms are free to enter in the market. It ensures of normo profit in the perfect competition. when profits is mo new firms enter the market and this leads to com

3. No government restrictions:

In perfect competition, there is no government intravention in the form of taxes, liescencing policies, control over the supply of raw material.

4. Price takers:

A firm in perfect competition market cannot influence the market through its more individual actions. It has no alternative other than selling its products art, Prevail (spread) in the market. It cannot sell as much as it wants, at it's own set price.

5. Total Revenue TR Product homogenity:

In perfect competition, all firms are produce similar products and all products are perfectly same in terms of price, shape, colour, ...

Total Revenue (TR), Average Revenue (AR), and Marginal Revenue (MR):

Total Revenue (TR):

Total Revenue = No. of quantities (produced & sold) x price of each quantity

$$TR = Q \times P$$

$$\boxed{TR = PQ}$$

Average Revenue (AR): (revenue earned per unit sold)

$$\text{Average Revenue} = \frac{\text{Total Revenue}}{\text{No. of Quantities}}$$

$$AR = \frac{TR}{Q}$$

$$AR = \frac{PQ}{Q}$$

$$\boxed{AR = P}$$

P = price of the product

Marginal Revenue (MR)

Marginal Revenue, refers to the change in revenue by producing and selling one more unit should be considered as marginal Revenue.

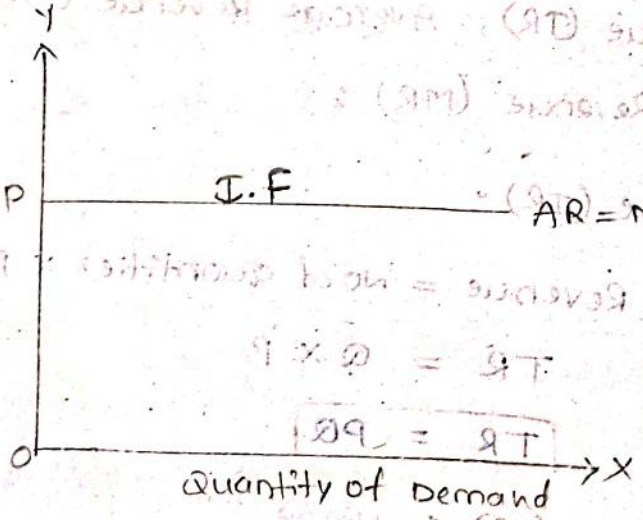
NOTE: Under perfect competition.,

Price = Average Revenue = Marginal Revenue

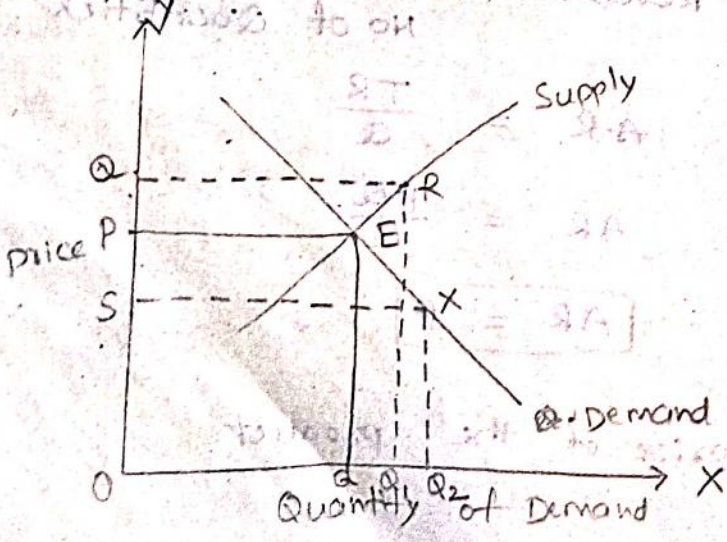
Perfect competition - Individual Firms:

Perfect competition in individual firms at certain level of price. The price value, average Revenue marginal revenue are having equal values.

In Individual firms, under perfect competition conditions, firms has no control over the price. It is always in a position of passive price takers.



Perfect competition - Firms and Industries:



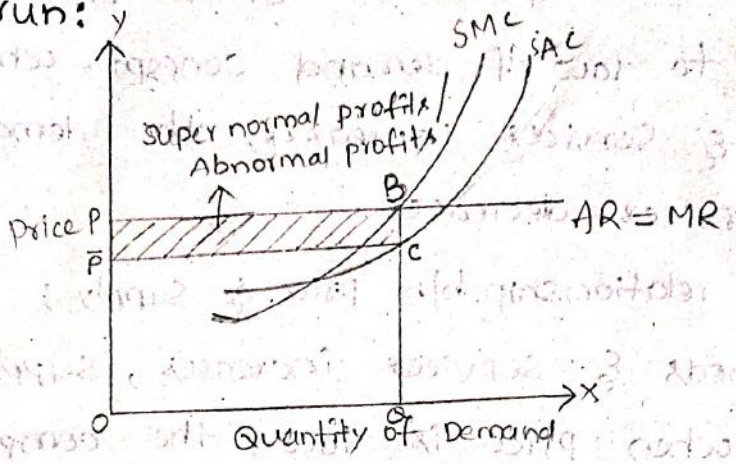
1. The prising strategy in perfect competition is charge the same price as other firm charge.
2. According to law of demand concept, when price of the goods & services increases, the demand of the goods & services decreases.
3. And the relationship b/n price & supply; when price of the goods & services increases, supply is also increases. when price is low, the competition b/n the consumers can raises and when prices increases the competition among the seller's reduces.

In above diagram, the demand & supply curves meet with each other. The point will be ensures as equillibrium point. It should be represented as 'E'.
It should be identified at 'OP' level of price and 'OQ' level of quantity.

NOTE:
1. when price is increases from 'OP' to 'OQ' and quantity of demand increases from OQ to OQ_1, and equilibrium point measured as 'R'. But, it ensures that supply is higher than the demand of the product. (Supply > Demand).
It may be leads additional expenditure to the organisation.
2. when price is decreases from 'OP' to 'OS' and the quantity of demand decreases from OQ to OQ_2. and equilibrium point is measured as 'X'.

Price output determination in perfect competition Mark

- Short run:



1. In the above diagram, under price output determinatio in perfect competition market - short run. In horizontal axis, we are taken quantity of demand of firms and industries. In vertical axis, we are taken prices of the produced products.

2. As per perfect competition, individual firms at certain level of output, price of the product is equal to AR and MR values.

when average Revenue is constant, it will be coinside with marginal Revenue. so that, the curve is considere as Average Revenue curve. And also Marginal Revenue curves.

under price output determination in perfect competition market must be satisfy the two conditions

(a) MR = MC (Marginal Revenue = Marginal cost)

(b) MC curve must be cut the MR curve from below that means 'MC' curve passes through minimum point of 'AC' curve.

conditions :

1. $OP = QB$ which is price.

   $O\bar{P} = QC$ which is Average cost

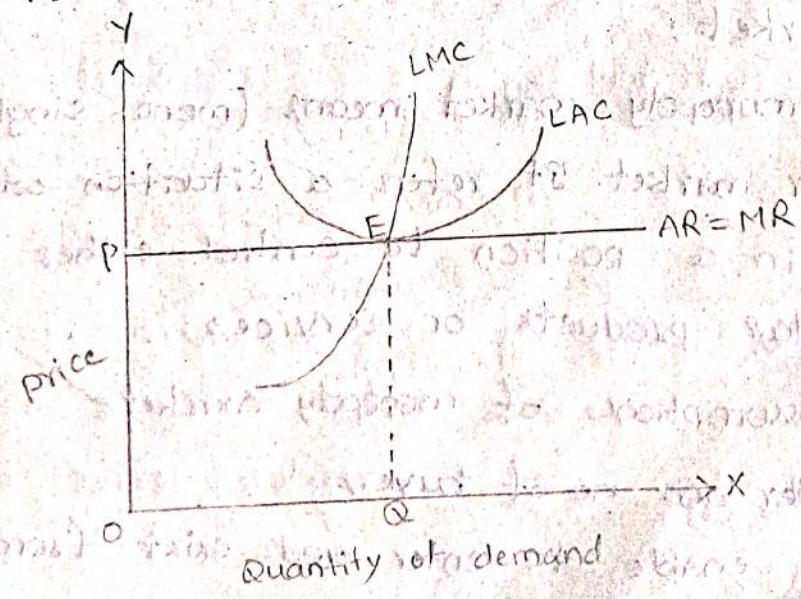
   $OQ = \bar{P}C$ which is Equillibrium output

Average profit = Price − Average cost.

In above diagram, BC is Average profit and area (PB and $\bar{P}C$) $PB\bar{P}C$ Total profit. which is also consider as Super normal (or) Abnormal normal profits.

Price output determination in perfect competition market - Long run :

1. In price output determination in long run under perfect competition market. The most of the firms are attracted by super normal profits of the firms in the short run.
2. The entry of the firms in the industry continuously increases up to super normal profits are completely consider as a normal profit − losses to the organisation.
3. These normal profits are just sufficient for informs just stay in the competitions (or) competative busines.



In above fig. under price output determination in perfect competition market - long run.

→ In horizantal axes we are taken quantity of demand firms and Industries in vertical axes we are taken price of the produced products.

→ As per perfect competition - individual firms at certain level of output price of the product is equal to AR & MR values.

→ Conditions under perfect competition - longrun.

a) MR = MC

b) AR = AC and AC must be passes through AR at minimum level of AC.

→ Long run marginal cost (LMC) curve passes through minimum point of long run, Average cost curve at point 'E'. Sothat 'E' should be consider as Equillibrium point. At this point firm produce 'OQ' level of output.

→ If the market price is below longrun, average cost of the firms will help. Quit the industry.

Since, in the long run, the firms have to recover the Average cost / Average Revenue.

Monopoly market:

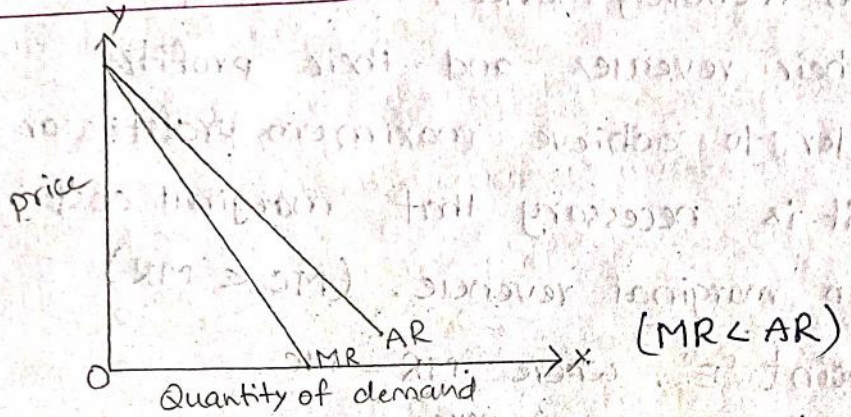
In monopoly market means (mono - single, poly - seller) single seller market. It refers a situation where single firms is in a position to control either supply or price of particular products or services.

Features - Assumptions of monopoly market:

1. Single seller and no. of buyers.
2. Firms is enable to enter and exist from the market
3. Firms is always in a position, price makers (price deciders).
4. There is no close substitutes.

5. The monopolistic can be decide the price and quantity and both.

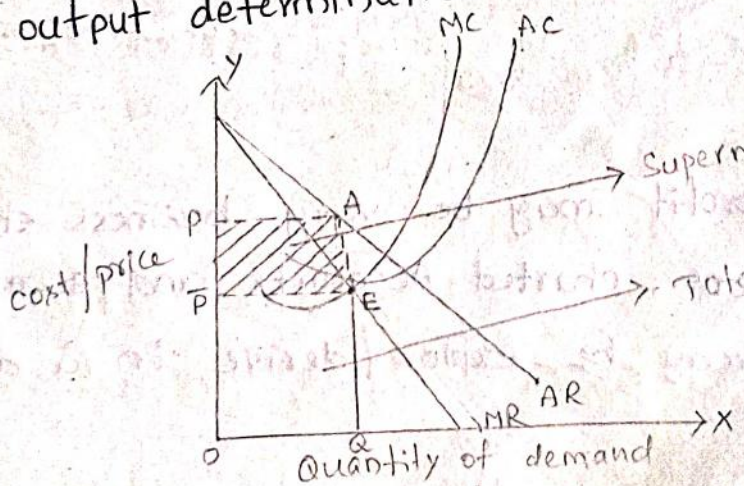
In monopoly market, marginal revenue is always less than the Average revenue.



Ex: 'X' person selling note books and each note book price value is 10/-. with the main motive of individual if any sell 10 note books an then excuse 10% discount so the price of the 10 bookes is 90/-.

The average revenue (selling price per each unit) is 10/- and the marginal revenue is 9/-. so that, in case of monopoly market, the average revenue is always higher than marginal revenue. (Due to Discount or copsaction)

Price output determination in monopoly market:



Under monopoly market, Average Revenue is always higher than compare to marginal Revenue curve

Average Revenue curve of the firm is always downwards sloping. Due to the firm produced products price value is less (price discounts). Then, the demand for the goods & services increases.

In monopoly market, the monopolist always to increase their revenues and their profits.

Inorder to achieve maximum profits or super norm profits, it is necessary that marginal cost of the firm lesser than marginal revenue. ($MC < MR$)

At point 'E', where $MR = MC$.

The 'Average Revenue curve is represented as 'AR' and marginal Revenue curve is represented as 'MR'.

The Average cost by 'AC' and marginal cost by 'MC'.

The 'OQ' should be consider as a equilibrium quantity of output. 'OP' is consider as Equilibrium price, 'OP' 'OP̄' is Average cost and 'A' is Average profit.

upto OQ output MR is greater than MC (MR>MC) and behind OQ MR is less than MC (MR<MC) so that, the monopolist will be in equilibrium at 'OQ' level of output.

Profit :

Definition of the profit may be vary business enterprise, authors, charted Accounts and economist point and there may be explore/derive in a different ways.

Profit simply means a positive gain that means earning from the business organisation or investment after detective (or) substract. all expenses / cost

Functions of profit:

1. measure the performance:

It measures the net effectiveness and soundness of the business effect. A higher profit is an indicator that the business is being run successfully and effectively.

It is a true that profit should be consider as a perfect measure of business, effectiveness and efficiency.

2. Premium to covers cost of staying in business:

Profit is a premium that covers cost, which are for production of products, Expenditure and staying in business.

3. Accounting profit and Economic profit:

In the Accounting sense profit is regarded as the renweal realised during the period minus the cost and expenses incurred a production. (or) producing the renueal.

The economist, how ever does not agree the accounting approach profit because of accounting profit would only detect the explict (or) actual cost from the earning value.

Accounting profit = Earning value - Explict cost

(or)

Accounting profit = $TR - (w + R + I + M)$ → Explict cost

where, TR = Total Revenue

w = wages

R = Rate of Interest (or) Rent

I = Interest

M = materials

Ex: TR = 3,50,000, wages = 80,000, Intrest = 6000, materials = 40,000, Rent = 10,000

Sol:

Accounting profit = TR − (W + R + I + M)

= 3,50,000 − (80,000 + 10,000 + 6000 + 40,

= 3,50,000 − 1,24,000

= 2,26,000

→ In economist point out that, Accounting profit does not considea as a pure profit. In addition to, accounting profit, we must be detect the explict value (or) explict cost from the total revenue.

Explict cost means, the cost coould be incurred in options of the employment of self owned factors should be detected. like enterprenuers wages, Intrest on self own capital, building rents and so on, all are should be consider as Explict cost of the organisation.

Economic profit = Total Revenue − {Explict cost + Implict cost}

Ex: TR = 3,50,000, own buildings Rent = 10,000

Self employment salary = 40,000, wages = 80,000,

Intrest = 6000

Economic profit = TR − (Explict cost + Implict cost)

= 3,50,000 − 1,24,000 − 40,000

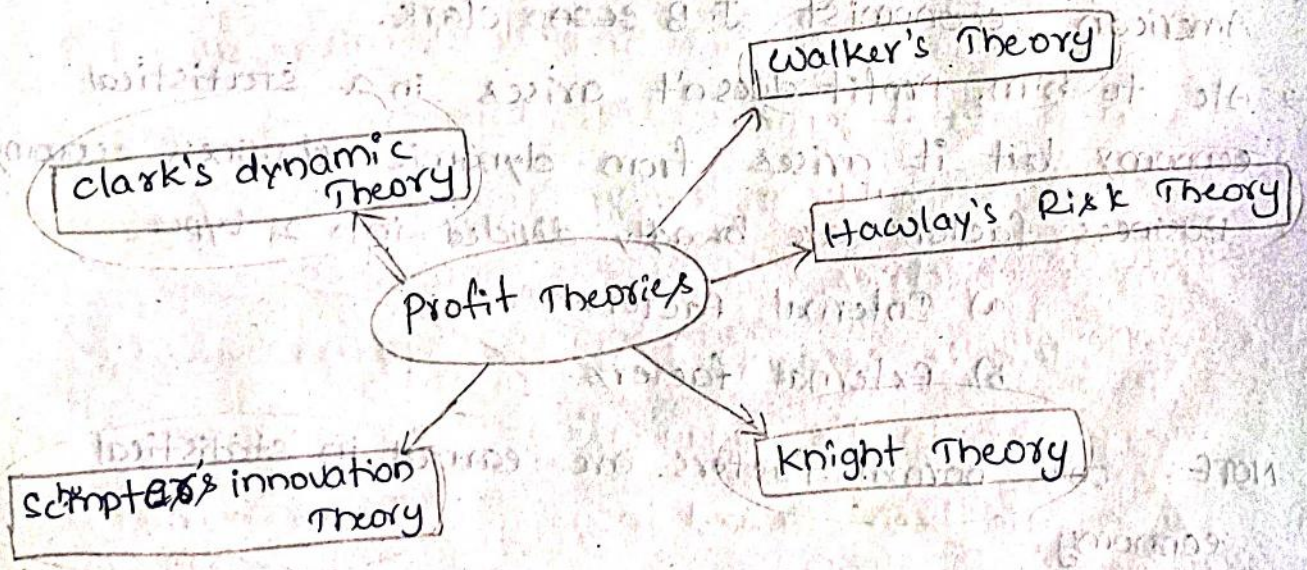
= 1,86,000

Economic profit is consider as pure profit of the organisation.

Profiteering and profit sharing:

Profiteering has to be understood and distant from profit earnings & profit sharing. where the amount of profit is too exceeded, a socially acceptable limited by questionable method. That means firms earning money doesn't acceptable by the society members.

Theories of profit:



1. Walker's Theory:

An American economist professor F.A. walker propound, the theory of profit known as Rent theory Rent is difference b/n least and most area covered land. Similarly, profit is difference b/n earnings of the least & most efficient enterprenuers.

least earnings - It covers cost of the goods

most earnings - Expanding the existing business

Drawbacks of Walker's Theory:

1. The theory provides only a measures of profit. The theory doesn't focus on nature of profit.
2. Earning of the profits by the firms depends on ability of the enterprenuers which doesn't always true. It may be depends on monopolistic provision of the firms.

2. clark's Dynamic Theory:

clark's Dynamic theory is introduced by American economist J. B ~~econo~~ clark.

→ Atc to him, profit doesn't arises in a statistical economy but it arises from dynamic ebusiness econom

→ Business factors are broadly divided into 2 types

a) Internal factors

b) External factors

NOTE: only normal factors are earned in statistical economy.

Characteristics - statistical economy:

1. size of the population.
2. Amount of the capital
3. There is no Risk & uncertainity.

Characteristics - Dynamic economy:

1. a) multiplication of consumer wants. ~~increa~~

b) Increase the population.

c) Advantages

3. Hacday's Risk Theory:

According to Hawlay's (F.B Hawlay's) in the year of 1983. profit is recorded of risk taking in business during the conduct of any business activity, all other functions of production i.e., land, labour, capital have generated, incomes to the entreprenueres (or) successful business people.

Critisizes / Drawbacks of Hawlay's Risk Theory:

1. Successful enterprenueres, they are not ready to take/ face any risks but they want their increase the profits.

4. Schumpter's Innovation Theory:

According to the Schumpter's, profits of the business is recorded of innovation.

Innovation:

a) New Technology adopted in the existing products.
b) New methods of production.
c) Adopt new ways to reduce the delivery time.
d) New sources of raw material

Generally, Innovation takes place in two ways.

1) Reduction of cost of production by introducing the new materials.
2) Enhansing the business activities / finding the new market.

5. Knight Theory :

Knight Theory is also known as Uncertainity - Bearing Theory.

→ Alc to knight, profit is recoarded for uncertainity - bear not to be consider as Risk tasking.

→ Knight Theory → Certainity – calculated risk

→ Uncertainity – Non- calculated risk

Profit planning :

Essential elements of planning :

1. Objectives and Results are established.
2. CEO place a crusial ~~root~~ role in order to development of any business activities and he is also responsible person of profit gettings.
3. The system should be totally persived especially in framing objectives.
4. The system is recognized as the Key method of management in the organisation.
5. Plans have been primed in by economist or associated by business pessons.
6. Budjeting, cost of control, contribution analysis are the key elements of profit planning.

Steps in profit planning :

Establishment of suitable objectives

↓

Setting proper control system

↓

Establishing the job responsibilities

↓

Maintaining the audit

↓

Gap Analysis

↓

Maintaining the Base data

↓

profit planning strategies

Profit measurements :

Profit place a very important role in any business activities.

→ The expansion & integration of business activities will be depends on profits only.

→ Normally, measurement of the profit is a difficult task But, it contains

(i) Inclusiveness costs

(wages + salaries + own charges)

(ii) Depreciation

1) It is a important bearing.

2) The cost of the capital consumption is replaced with equipment.

Causes of depreciation:

1. physical Depreciation
2. Functional Depreciation
3. Accidental Depreciation

EMI - Equated monthly Installment

Methods:

1. Straight line method:

It is a simplest and most commonly used method of depreciation.

→ It is also known as Equal Installment method.

→ The value of depreciation declaines at constant rate.

→ The Annual depreciation is calculated by dividing the initial cost of an assets by estimated life in years assuming that there is no scrap value.

→ If any scrap value, then the amount should be detected from initial cost.

2. The unit of production method:

1. Estimated working hours.
2. Alc to this method, capital expenses of an equipment are recovered on the basis of the expected product

3. The millage method:

→ under this method depreciation value is calculated on the basis of millage.

Ex: Automobiles

4. Declaining Balancing method:

1. constant percentage of depreciation in each year.
2. Under this method, Depreciation is high in easly part of the assets life time period at certain rate of values.

(3) Treatment of capital Gain & Loses:

1. Inflation (price value increases)
2. Deflation (price value decreases)
3. stragglation (In between)