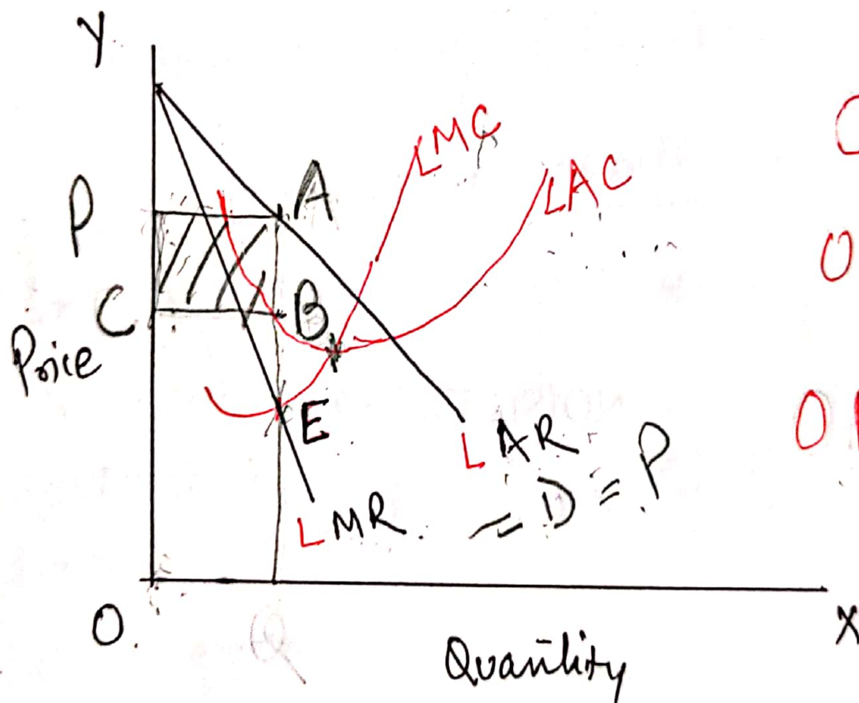
Price & Output determination Under Monopoly market in Long Run

- Seller can take decisions on Price and Output in long run So seller earns a super normal Profit in Long Run.



OP = Price

OC = Cost

OP > OC

E equilibrium Point and maximum Profit Condition too, As LMR = LMC

LAC < LAR

Profit = OP − OC
= PC

□ PCBA gives super normal Profit.

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Monopoly Market

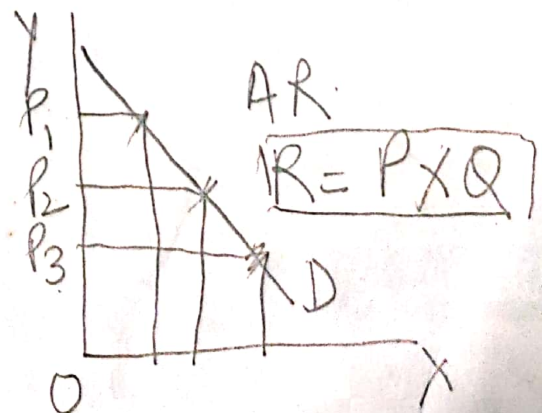
→ The word Monopoly is a combination of "Mono" means single and "Poly" which means seller.

→ Only One seller and many buyers
→ No close substitute
→ eg Indian Railway (Generally Gov. Authority)

Features/Assumptions

1. One seller & large buyers (Number)
2. No close substitute
3. Restrictions on the entry of new firms
4. Price Maker
5. Price Discrimination
6. Downward sloping Demand Curve
7. Average Revenue curve is demand curve

$$P = AR = DC$$



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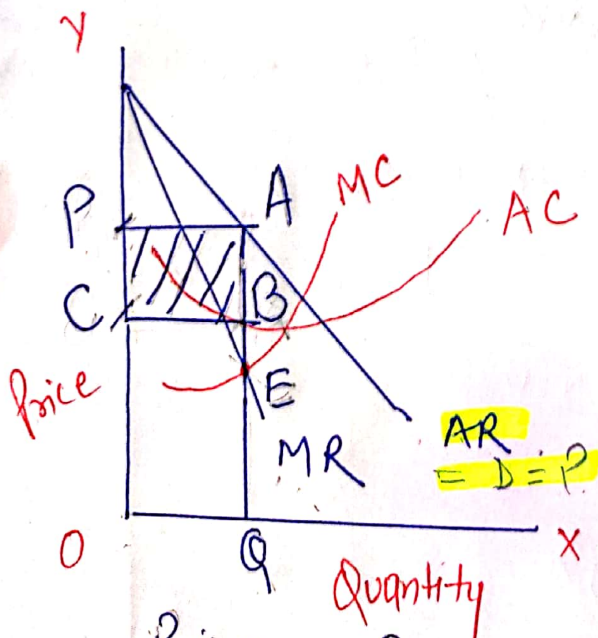
Causes of Monopoly

1. Government Policy
2. Control over Raw material
3. Patents
4. Unfair Competition
5. Capital size
6. Technical Barrier

Price Determination and Quantity (output) decisions / Equilibrium in Short Run & Long Run in Monopoly Market



Price = OP

Cost = OC

OP > OC

Equilibrium Condition

Profit Maximisation Condition

1) MC = MR
2) MC cuts MR at below. (equili. Point)

□ ABCP Gives Super normal Profit.

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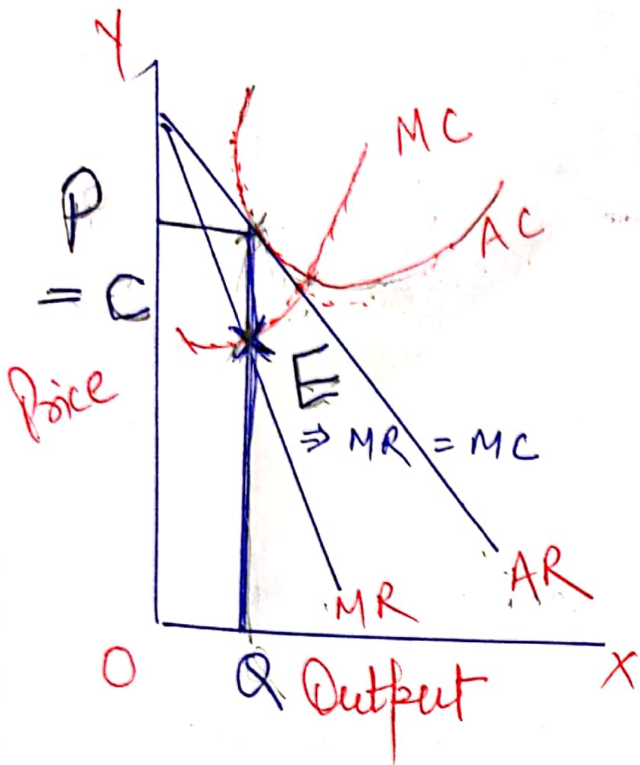

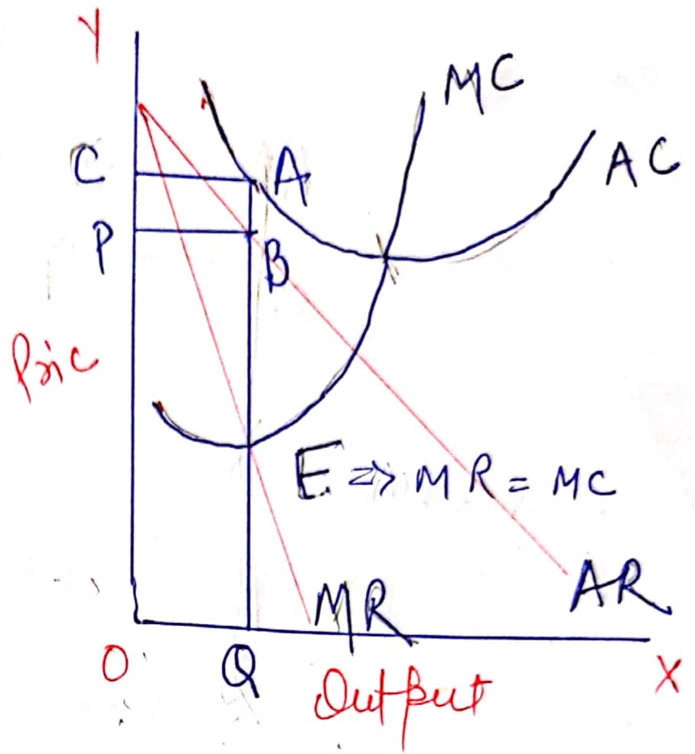

Normal Profit

Condition

AC = AR

or Price = Cost

OP = OC

Loss

Condition

AC > AR

or

OC > OP
(Cost) (Price)

Loss Area

□ CPBA

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Monopolistic Competition & it's features

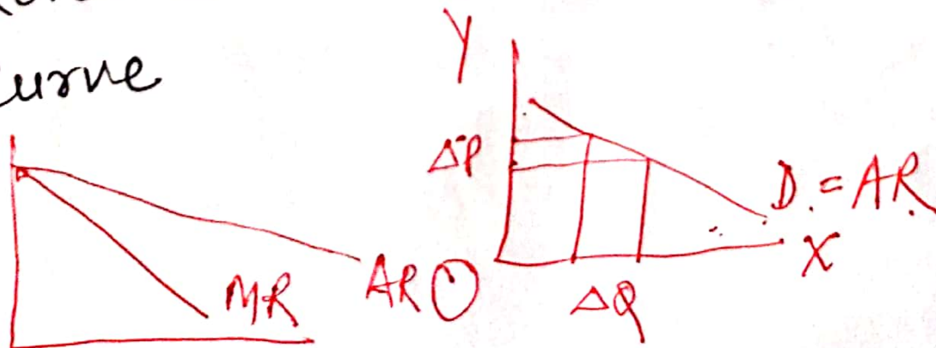
Monopolistic Competition refers to that market situation, where many number of firms sell closely related goods but differentiated.

eg Toothpaste, Soap

Features of Monopolistic Competition

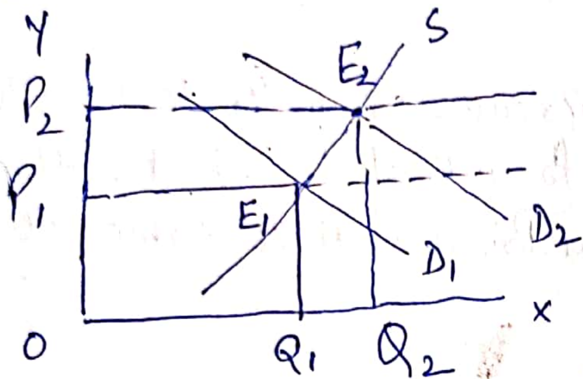
- Large Numbers of seller (countable)
- Product differentiation
- Free Exit and entry (But Not absolute)
- Non Price Competition
- Selling Cost
- Elastic demand curve
- Revenue Curve follows demand curve

X	Y
(10) 100	100 (15)
(20) 80	120 (15)



Price Determination in Short Run in Perfect Competitive Market

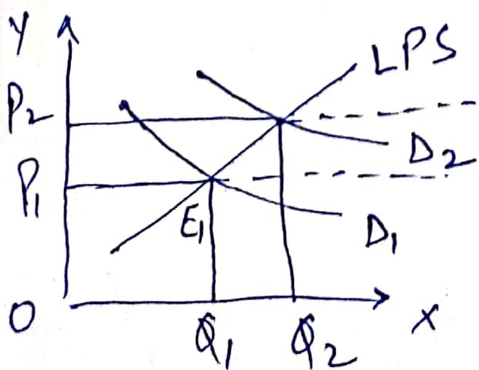
① **Price Determination in short Run-** In short Run supply can be changed only within the limits set by the Plant capacity of firm and only by variables factors.



In short Period an increase in demand will raise both quantity and Price of market, while opposite impact when demand decline.

② **Price determination in long Run** - In long Run supply can be adjusted according to demand, while greater adjustment in output and smaller in Price. The new price may be more, equal or less than the initial depending upon whether industry operates under increasing, costant or decreasing cost conditions.

Ⓐ **Case of Increasing Cost**



In this case supply curve has upward direction i.e. increased output is available at increased cost and therefore increased Price.

As demand shifted D_1 to D_2, New Equili. also shifted E_1 to E_2, which increase Price P_1 to P_2.

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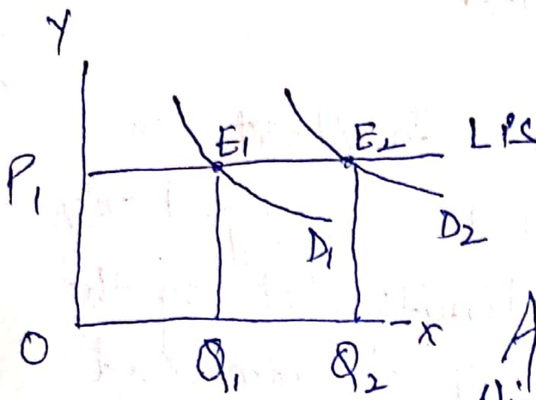
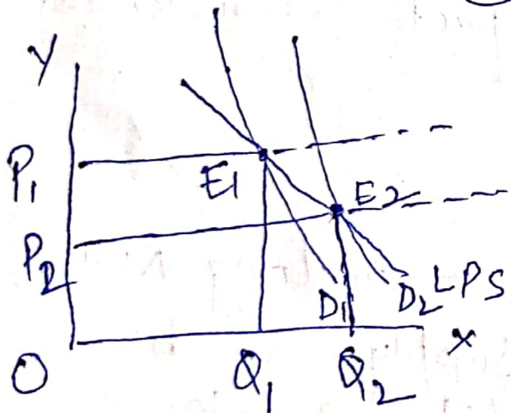
(B) Case of Constant Cost



In this case supply is horizontal line or curve. Industry can have increased output at same cost.

As demand increases from D_1 to D_2 which shifted equili. from E_1 to E_2, but both coincide, so no change in Price. It is same as OP_1.

(C) Case of Decreasing Cost



In this case supply curve is downward sloping. As industry can provide additional output at decreasing cost.

As demand shifted from D_1 to D_2 equili. also shifted but for first equili. E_1 Price is high i.e. OP_1 and for second it is OP_2 which is less than initical Price.

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