**FY SEM – II**

**MODULE I**

INSTRUCTIONS: Given below are statements that are TRUE. Study them well along with those given in the book. They can be asked in some form or the other for MCQ’s and True / False and will help in revision.

**Ch: 1 Market Structure: Extreme Cases of Perfect Competition and Monopoly**

* Market is an institutional arrangement where buyers and sellers interact to determine price and quantity of a product. It does not have to be a physical location.
* Features of Perfect Competition:
* Large number of buyers and selles
* Homogenous product is sold
* Seller is a price taker
* Free entry and exit
* Perfectly elastic demand curve
* Complete information between buyers and sellers
* Consumers in perfect competition pay minimum possible price and gain the maximum possible consumers surplus.
* A monopolist sells a product that is unique in the market
* Features of monopoly:
* Single seller
* Unique product
* Price maker
* Restricted entry
* inelastic demand curve
* Monopolist can undertake price discrimination
* A monopoly involving the Government does not operate for profit maximization but for social welfare
* Monopolistic competition involves product differentiation
* Demand curve of a monopolistic competition firm is relatively elastic
* Oligopoly market firms have a kinked demand curve
* Oligopoly firms can behave like a monopoly by forming cartels
* An oligopoly firm can indulge in non-price competition to attract customers. Non- price competition means when a seller tries to get customers for his product without reducing the price. Eg- advertising, coupons, fancy packaging, etc

**Ch: 2 Perfect Competition**

* Single buyer/ seller cannot influence price
* As all commodities sold are identical, there is no scope for price differences between sellers
* Factors of production are freely mobile
* Objectives of firms is to maximize profits
* Average Revenue= Marginal Revenue= Price
* A firm under perfect competition is in equilibrium where profit is maximized
* Equilibrium occurs at the point where MR=MC and MC is increasing
* Price is determined by intersection of demand and supply
* The point where TR=TVC is called the shut down point
* Short run supply curve of industry- horizontal summation of of individual firms supply curves
* Long run is a time period where there is no difference between fixed cost and variable cost
* Long run supply curve is the portion of MC curve above AC
* Short run supply curve is the portion of MC above AVC

**Ch: 3 Equilibrium of a Firm and Industry in Perfect Competition**

* Short run equilibrium under Perfect Competition includes Excess Profit, Normal Profit and Loss
* In Normal Profit, TR= TC
* A firm continues to operate in loss until it reaches the shut down point.
* In the Long run equilibrium, a firm under perfect competition earns normal profit
* In the long run, only the firms earning normal profit will remain in the industry
* Under differential costs, those firms which are more efficient can earn supernormal profit in the long run

**Ch: 4 Monopoly**

* Commodities sold by monopoly firms do not have any close substitutes
* Firm is a price maker
* Entry for firms is restricted through Government regulations, patents, etc
* Demand curve is inelastic and cross elasticity of demand is almost zero due to lack of substitutes
* A limiting-price policy can prevent new firms from entering a monopoly market in the absence of restrictions
* Equilibrium occurs at the point where MR=MC and MC is increasing
* Profit is maximized when the difference between TR and TC is maximum
* In the short run a monopolist can face excess profit or even loss
* In the Long run the monopolist usually earn excess profit