PRICE AND OUTPUT

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- WHAT IS PRICE :
- value of a things expressed in monitory terms

- importance of price fixing

  if too high sales will fall

  if too low (cant cover cost)

So determination of price is an important function of Mgt. in all BSS

Price Theory

- theory of value
- central part of economics
- What is PT.
- tell **how** the **prices** of a commodity or service is determined in different mkt. situations
- include study of various **factors** of determinants of price

Price (mkt.)mechanism

- mkt. forces
- (DD & SS)
- refers to the operation of mkt. forces
- it is the **process of price determination** by the interaction of free mkt. forces
- PM is the **instrument** of decision making
- DD & SS determine its equilibrium
- **any change** in DD and SS leads to a Change in equilibrium price

Components of price mechanism

- 3 **Components**

1. Principles of DD
2. Principles of SS
3. Equilibrium price

principles of DD= **inverse relation** between P and DD

(when P ↑ DD ↓ and vice versa

...principles of SS= **direct relation** between P and SS

(when P ↑ SS also ↑)

Equilibrium price is the P at which DD and SS are equal

- graph
- X DD and SS
- Y =P
- whenever there is a change in DD or SS

MARKET

- where good are bought and sold

- an arrangement by which buyers and sellers of a commodity interact to determine its price and quantity

- kinds of MKT

- perfect com, monopoly
  imperfect com(oligopoly, duopoly, monopolistic)

Perfect completion MKT

- mkt. large number of buyers and sellers of a homogeneous product and P of the product is determined by mkt. forces
- only a myth
- Role of seller = price taker

characteristic

1. **Large no. of sellers and buyers** (each one sell small portion of total traded so they cant dominate and influence the P)
2. **homogeneous** product (identical)
3. A **single price**
4. **Free entry and exit** of firms. (if industry is making profit new firm will come)
5. **Perfect knowledge** of mkt. condition
6. **Perfect mobility** of factors of production
7. **Absence** of selling and transportation cost (if there , different price)

- what is equilibrium

… state of rest or stability

position from which no change is

Firm. Bss. unit encaged in

Industry: group

Equilibrium of firm and industry (perfect)

- large sellers
- Single firms has no control on price
- industry fix price (so only one price)
- price is fixed at the point where DD and SS are equal (E Price)
- E quantity
- Graph

- E = SS equal DD
- if P $\uparrow$ form P to P_1
- DD is P_1 A and SS is P_1 B
- A to B excess SS (so firm will force to lower its price from)

- if P $\downarrow$ from P to P_2
- SS is P_2 C and DD is P_2 D
- C to D excess DD (so firm will force to increase its price from)

- firm is only a price taker
- They determine the out put as per the equilibrium to get maximum profit.
- 2 condition are satisfied (what is MC & MR)

1. when they produce a level of output at which MC is = to MR

- if MC is <MR (firm can increase the out put)
- if MC is >MR (firm have to reduce their out put)

2. MC must cut MR curve from below (MC curve should have positive slope)

E chart of I and Firm

- Industry DD=SS
- **Firm**
- **PA and PB**
- Not PA because MC cut MR curve from above
- A TO B (expansion of output)
- what is E price and E quantity
- under perfect competition MR =AR because only one price is prevailing in the market)
- what is AR (revenue per unit of output)

Effect of Time upon SS

- Marshall (time has tremendous influence upon the determination of price)
- SS does not in accordance with the
  in DD (DD from 10 to 20 but SS is 10)
- it is due to technical aspects of production
- a certain amount of time will take to expand the size of plant.
- in short period cost of production will be high (no time to expand plant capacity) **in long run**
- 4 type of periods
- (mkt. Period, short , long and very long period)

MARKET PERIOD

- A period of time in which at all inputs in the production process are fixed,
- quantity of output itself is fixed
- it may be a day or very few days
- **SS** is more or less fixed, **DD** alone determines the **P** (**SS** remains fixed irrespective of in DD)
- **SS** curve in the market is a vertical straight line
- Perishable goods: milk, fish, fruits, egg, etc.
- **E** Price is the **P** at which the entire SS is sold
- if **DD** is high, **P** will be high

Short period

- .....is a period during which the SS of the commodity can be changed without changing the existing **plant and machinery.**
- no time to change P&M
- only variable factors of production can be changed
- the P is determined by SS to certain extent and DD
- commodities are durable and reproducible.
- SS curve = upward moving from left to right
- the P is known as Short Run Nominal Price

long period

- it is a period during which sufficient time is available to the fixed as well as variable production factors
- SS can be easily adjusted to changing DD
- P is determined by 2 market forces
- SS curve would be more flatter than the short run
- P is known as Long Run Nominal Price

Very long period

- Also known as secular period
- Long period of time
- usually at least 10 years
- it include all the change in DD and SS which require a long period of time.
- the change such as

  change in the size of population

  ,, ,, SS of materials

  ,, ,, SS of capital etc.

These are structural changes

Price Determination by Industry under perfect

- what is perfect market

During short period

In the case of durable goods

Reserve price OS no sale

Curve at the beginning and it will take a straight line

at OP OQ is held back

At OP1 entire stock will offer for sale (P is very high)

At OP2 OM is offered and rest held back