Economics

- Economics is the study of how people allocate scarce resources for production, distribution, and consumption, both individually and collectively.
- Economics is a social science that focuses on the production, distribution, and consumption of goods and services.
- The two branches of economics are microeconomics and macroeconomics.
- The study of microeconomics focuses on the choices of individuals and businesses, and macroeconomics concentrates on the behavior of the economy on an aggregate level.

Business Economics

- Business economics is a field of applied economics that studies the financial, organizational, market-related, and environmental issues faced by corporations.
- Business economics encompasses subjects such as the concept of scarcity, product factors, distribution, and consumption.
- Business economics assesses certain factors impacting corporations-business organization, management, expansion, and strategy-using economic theory and quantitative methods.

Scope of Business Economics

Business Economics covers most of the problems that a manager or establishment faces. Hence, the scope of business economics is wide.

A. Microeconomic Scope

1. Analyzing Demand and Forecasting: Analyzing demand is all about understanding buyer behavior. It studies the preferences of consumers along with the effects of changes in the determinants of demand. Also, these determinants include the price of the good, consumer's income, tastes/ preferences, etc.

2. Production and Cost Analysis: A business economist has the following responsibilities with regards to the production:

- Decide on the optimum size of output based on the objectives of the firm.
- Also, ensure that the firm does not incur any undue costs.

3. Inventory Management: Firms can use certain rules to reduce costs associated with maintaining inventory in the form of raw materials, work in progress, and finished goods. Further, it is important to understand that the inventory policies affect the profitability of a firm.

4. Market Structure and Pricing Policies: Any firm needs to know about the nature and extent of competition in the market. A thorough analysis of the market structure provides this information. Further, with

the help of this, firms command a certain ability to determine prices in the market. Also, this information helps firms create strategies for market management under the given competitive conditions.

Price theory, on the other hand, helps the firm in understanding how prices are determined under different kinds of market conditions. Also, it assists the firm in creating pricing policies.

5. Resource Allocation: Business Economics uses advanced tools like linear programming to create the best course of action for an optimal utilization of available resources.

6. Theory of Capital and Investment Decisions: Among other decisions, a firm must carefully evaluate its investment decisions an allocate its capital sensibly. Various theories pertaining to capital and investments offer scientific criteria for choosing investment projects. Further, these theories also help the firm in assessing the efficiency of capital. Business Economics assists the decision-making process when the firm needs to decide between competing uses of funds.

7. Profit Analysis: Profits depend on many factors like changing prices, market conditions, etc. The profit theories help firms in measuring and managing profits under such uncertain conditions. Further, they also help in planning future profits.

8. Risk and Uncertainty Analysis: Most businesses operate under a certain amount of risk and uncertainty. Also, analyzing these risks and uncertainties can help firms in making efficient decisions and formulating plans.

B. Macroeconomic Scope

External or environmental factors have a measurable impact on the performance of a business. The major macroeconomic factors are:

- Type of economic system
- Stage of the business cycle
- General trends in national income, employment, prices, saving, and investment.
- Government's economic policies
- Performance of the financial sector and capital market
- Socio-economic organizations
- Social and political environment.

The management of a firm has no control over these factors. Therefore, it is important that the firm fine-tunes its policies to minimize the adverse effects of these factors.

Significance of Business Economics

1. Helps in Decision Making

- It guides businesses in making smart choices by understanding the market and consumer behavior.
- Helps in making decisions about production, pricing, and where to sell products.

2. Resource Optimization

- Teaches businesses how to use their limited resources (like money, time, and materials) in the best possible way.
- Ensures that resources aren't wasted and are used to produce the highest possible output.

3. Cost Control

- Helps businesses figure out how to reduce unnecessary costs and increase profits.
- Helps businesses understand fixed and variable costs, so they can price their products properly.

4. Better Understanding of Markets

- Explains how supply and demand work, so businesses can understand what consumers want and when.
- Helps businesses spot trends and adapt to changing market conditions.

5. Pricing Products Right

- Business economics shows how to set prices that attract customers and maximize profits.
- Helps in understanding the effects of raising or lowering prices based on consumer demand.

6. Profit Maximization

- Teaches how to balance cost and revenue to maximize profits.
- Helps businesses decide on the best level of production and pricing to achieve the highest profit.

7. Understanding Competition

- Helps businesses analyze competitors and develop strategies to stay ahead in the market.
- Guides businesses in how to respond when a competitor changes its prices or introduces new products.

8. Long-Term Planning

- Encourages businesses to plan for the future by considering economic trends, risks, and opportunities.
- Helps businesses prepare for challenges like inflation, recession, or changes in the global economy.

9. Evaluating Market Conditions

- Helps businesses assess whether the market conditions are favorable or not, helping them decide when to enter or exit a market.
- It also helps them in expanding their business wisely.

10. Improving Business Efficiency

- Business economics focuses on reducing inefficiencies and improving productivity.

- Helps businesses run smoothly and become more competitive.

11. Risk Management

- Helps businesses identify and assess potential risks (like market fluctuations or financial crises).
- Provides tools to develop strategies for minimizing or avoiding those risks, helping businesses stay stable.

12. Market Structure Understanding

- Business economics helps businesses understand different market types (e.g., perfect competition, monopoly, oligopoly) and their impact on pricing, competition, and strategy.
- Helps businesses adapt their strategies based on the structure of the market they operate in.

13. Profit and Loss Analysis

- Helps in analyzing profit margins, break-even points, and understanding how changes in costs or sales can affect the overall profit.
- Aids in setting clear financial goals and tracking performance.

14. Government Policies and Regulations

- Business economics helps businesses understand how government policies (like taxes, tariffs, subsidies) can impact their operations.
- Enables businesses to adjust their strategies according to legal and economic changes in the country or internationally.

15. International Trade and Global Markets

- Teaches businesses how to assess the impact of global economic trends (such as exchange rates, international demand, and tariffs).
- Helps businesses expand globally by understanding international markets and trade relations.

16. Helps in Analyzing Consumer Behavior

- Helps businesses analyze how and why consumers make purchasing decisions.
- Helps in designing marketing strategies and product offerings that attract more customers.

17. Helps in taking Investment Decisions

- Guides businesses in making smart investment choices (whether in new projects, equipment, or other ventures).
- Uses tools like cost-benefit analysis to determine which investments will bring the highest returns.

18. Production Techniques and Efficiency

- Helps businesses choose the best production techniques to use, based on the cost-effectiveness and output.
- Enables businesses to improve productivity and maintain a competitive advantage.

19. Inflation and Economic Cycle Awareness

- Helps businesses prepare for changes in the economy, such as inflation or recession.
- Teaches how to adjust pricing, wages, and strategies during different economic phases (expansion, recession, etc.).

20. Labor Market and Employment Decisions

- Teaches businesses how to make decisions about hiring, wages, and employee benefits.
- Helps businesses analyze labor market trends to hire the right talent at the right cost.

Limitations of Managerial Economics

1. Simplified Assumptions:

Managerial Economics often relies on **simplifying assumptions** to model complex real-world situations. While these assumptions facilitate analysis, they may oversimplify the intricacies of actual business scenarios, leading to less accurate results and potentially flawed decision-making.

2. Data Limitations:

Managerial Economics heavily relies on data for analysis and decision-making. However, acquiring accurate and reliable data can be challenging, especially in dynamic markets or industries with limited available information. Incomplete or inaccurate data can undermine the effectiveness of managerial decision-making.

3. Time and Cost Constraints:

Applying Managerial Economics principles to decision-making requires time, resources, and expertise. Small businesses or managers with limited resources may struggle to implement complex economic analysis, thereby limiting the practical application of managerial economics in certain contexts.

4. Overemphasis on Economic Factors:

Managerial Economics primarily focuses on economic aspects of decision-making. While economics plays a vital role, managerial decisions often involve non-economic factors such as social responsibility, **ethical considerations**, and **long-term sustainability**. Exclusive reliance on economic analysis may neglect these broader perspectives.

5. Uncertainty and Complexity:

Despite the tools and techniques offered by Managerial Economics, **decision-making** in the real world remains inherently uncertain and complex. Economic models cannot account for all factors influencing business outcomes, and unexpected events or market shifts may disrupt predictions and strategies developed through managerial economics.

(https://educationleaves.com/what-is-managerial-economics/#Disadvantages_of_Managerial_Economics)

6. Incomplete Information:

Managers may lack complete information, making it challenging to apply economic models accurately, leading to suboptimal decisions.

7. Dynamic Environment:

Rapid changes in the business environment can render economic analyses outdated, making it difficult for managers to adapt strategies in real-time.

8. Assumption of Rationality:

Economic models often assume individuals act rationally, overlooking emotional or irrational behavior that influences decision-making.

9. Inability to Measure Non-Market Activities:

Many valuable activities, like household work or volunteerism, aren't easily measured in economic terms, leading to an incomplete understanding of societal welfare.

10. Cultural and Social Variations:

Economic principles may not universally apply, as cultural and social factors can significantly influence economic behaviors and outcomes.

11. Ethical Considerations:

Economics may not always incorporate ethical considerations, potentially leading to outcomes that prioritize efficiency but overlook fairness or justice.

Demand

Demand in economics refers to how much of a product or service people are willing and able to buy at different prices during a certain period of time.

In simple terms, demand in economics refers to how much of a product or service people desire, are able, and are willing to buy at different prices during a certain period of time.

This means that demand is not just about wanting a product, but also having the ability (financial means) and the willingness to buy it.

Law of Demand

The Law of Demand states that, all other factors being equal, as the price of product decreases, the quantity demanded by consumers increases, and as the price of a product increases, the quantity demanded decreases.

In simple terms, when a product gets cheaper, people are more willing to buy more of it. Conversely, when the price goes up, people tend to buy less of it. This relationship is generally negative or inverse, meaning price and demand move in opposite directions.

For example, if the price of a vegetable drops, more people may decide to buy it, but if the price rises, fewer people might be willing to purchase it.

Demand Schedule

A demand schedule is a table that shows the quantity of a good or service that consumers are willing and able to purchase at different prices during a specific time period. It helps to visualize the relationship between the price of a product and the quantity demanded.

There are two types of demand schedules:

1. Individual Demand Schedule

This shows the quantity of a good that one individual is willing to buy at various prices.

Example of Individual Demand Schedule:

Price (per unit)	Quantity Demanded (units)
10	5
20	4
30	3
40	2
50	1

In this example, as the price increases from 10 to 50, the quantity demanded decreases from 5 to 1, following the Law of Demand.

2. Market Demand Schedule

This shows the total quantity of a good or service that all consumers in the market are willing to buy at various prices. It is simply the sum of the individual demand schedules of all consumers.

Example of Market Demand Schedule:

Price of commodity	Quantity of 'x' demanded Kgs.			Market demand
'x'(₹)	Con-sumer	Con-sumer	Con-sumer	A + B + C
	A	B	C	
10	5	10	15	30
8	10	15	20	45
6	15	20	25	60
4	20	25	30	75
2	25	30	35	90

Key Differences:

Individual Demand Schedule represents the quantity demanded by one person.

Market Demand Schedule represents the quantity demanded by all consumers in the market

Demand Curve

A demand curve is a graphical representation of the demand schedule. It shows the relationship between the price of a good or service and the quantity demanded by consumers. It is typically downward sloping, meaning that as the price decreases, the quantity demanded increases (following the Law of Demand).

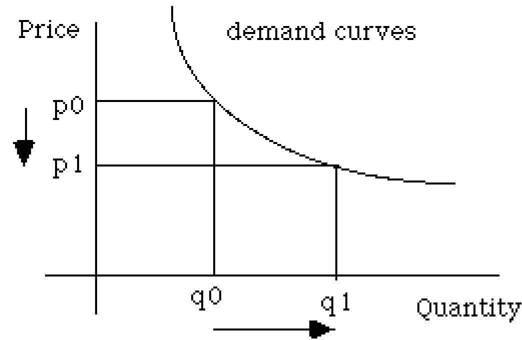
In a normal demand curve, the price is plotted on the vertical (Y) axis, and the quantity demanded is plotted on the horizontal (X) axis.

Types of Demand Curves

1. **Normal Demand Curve**
    - This is the most common type of demand curve and follows the basic Law of Demand, where the demand decreases as the price increases.
    - Shape: Downward sloping from left to right.

Example:

- If the price of a good decreases, consumers are willing to buy more, and if the price increases, they will buy less.



2. **Perfectly Elastic Demand Curve**
   - This occurs when the demand for a good is extremely sensitive to price changes. Even a tiny change in price causes an infinite change in the quantity demanded.
   - Shape: Horizontal line.
   - Example: Products that have perfect substitutes and where any price change would make consumers shift to the substitute completely.

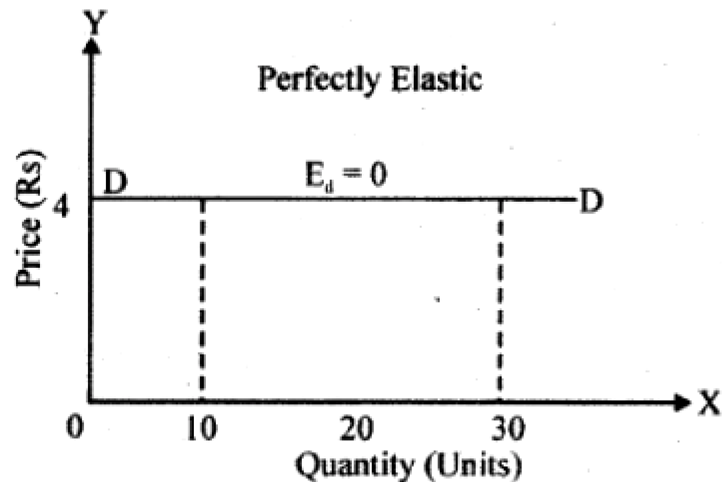


Figure shows perfectly elastic demand

3. **Perfectly Inelastic Demand Curve**
   - In this case, the quantity demanded does not change regardless of the price. People will buy the same quantity of the good even if the price rises or falls.
   - Shape: Vertical line.

- Example: Life-saving drugs or necessities like insulin, where consumers need the same amount regardless of the price.

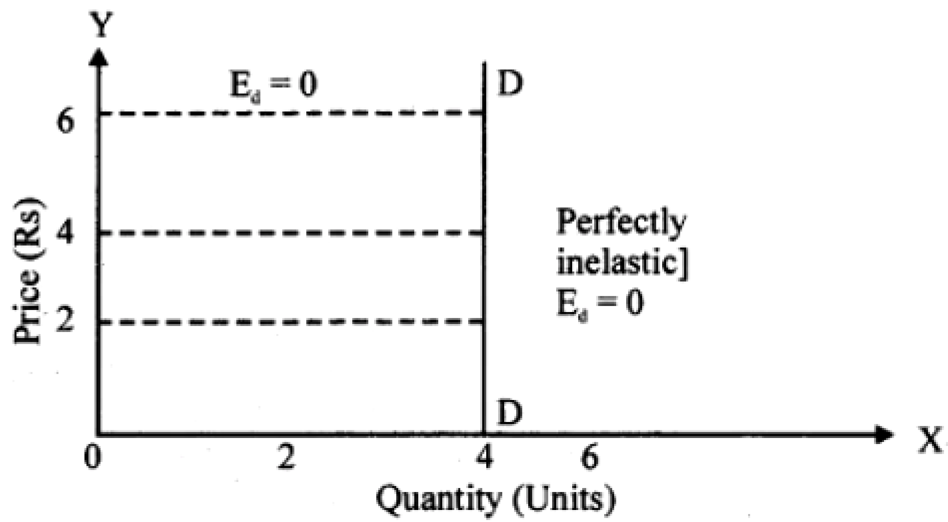


Figure shows perfectly inelastic demand curve

Exception of Law of Demand

Veblen Goods: These are fancy items like luxury cars or designer clothes. Sometimes, when their prices go up, people want them even more because they see them as symbols of status.

Giffen Goods: These are basic things like cheap bread for people with low incomes. When the price goes up, they might buy even more of it because they can't afford anything else.

Giffen goods are low-priced products, the demand for which rises along with the price. These products are necessary to fulfill the need for food, and they have only a few substitutes. Bread, wheat, and rice are examples of Giffen goods. The thought of Giffen goods undermines the fundamental law of demand.

Speculative Goods: Some goods, like stocks or cryptocurrencies, people buy hoping they'll go up in price in the future. So, when the price rises, more people might buy them.

Necessities: Things we absolutely need, like medicine or water, might still get bought even if the price goes up because people can't go without them.

Fads and Fashion: Items that become trendy, like certain brands of sneakers, might see more demand when the price goes up because everyone wants to have them.

Limited Edition Items: Things that are only available in small quantities, like collector's items or limited edition sneakers, might get even more popular when the price goes up because people want to own something rare.

Network Effects: Products like social media or online marketplaces become more valuable as more people use them. So, if the price goes up, more people might join in, increasing demand.

Ignorance of Real Value: Sometimes people don't know the true value of a product, so they might buy more of it even if the price is high.

Emergency Situations: In emergencies like natural disasters, people might buy more of certain goods even if the price goes up because they need them urgently.

Habitual Purchases: Some things people buy out of habit, like their morning coffee. Even if the price goes up, they might still buy it because they're used to it.

Stock market trading: The law of demand doesn't apply in the stock market. Contrary to the law, people often buy more stocks when their prices increase.

Changes in taste, preferences, and fashion: Changes in consumer taste and preferences, especially for fashionable products, can lead to increased demand despite price increases.

Changes in income: A change in income can alter purchasing behaviors. If a family's disposable income increases, they may buy more goods regardless of price increases. On the contrary, they might delay buying a product even if its price decreases when their disposable income decreases.

Determinants of Demand

Price of the good or service: Changes in price directly affect the quantity demanded, following the law of demand. According to the law of demand, this implies an increase in demand follows a reduction in price and a decrease in demand follows an increase in the price of similar goods.

Income: Consumer purchasing power, influenced by income levels, affects demand for normal and inferior goods. Rising incomes lead to a rise in the number of goods demanded by consumers. Similarly, a drop in income is accompanied by reduced consumption levels.

Buyers in the market: If the number of buyers for a commodity are more or less, then there will be a shift in demand. The number of buyers has a major effect on the total or net demand. As the number increases, the demand rises.

Prices of related goods: Changes in the prices of substitutes and complements influence the demand for a particular good.

- *Complementary products* – An increase in the price of one product will cause a decrease in the quantity demanded of a complementary product. Example: Rise in the price of bread will reduce the demand for butter. This arises because the products are complementary in nature.

- *Substitute Product* – An increase in the price of one product will cause an increase in the demand for a substitute product. Example: Rise in price of tea will increase the demand for coffee and decrease the demand for tea.

Tastes and preferences: Consumer preferences and trends impact demand for goods and services.

Consumer Expectations: Consumer expectations about future prices, income, or economic conditions affect current demand. Expectations of a higher income or expecting an increase in prices of goods will lead to an increase the quantity demanded. Similarly, expectations of a reduced income or a lowering in prices of goods will decrease the quantity demanded.

Demographics: Factors such as population size, age distribution, and family composition influence demand.

Government policies and regulations: Taxes, subsidies, and regulations can alter demand for specific goods and services.

Advertising and marketing: Effective marketing strategies can shape consumer perceptions and increase demand.

Seasonal factors: Demand for certain goods may vary based on seasonal patterns or holidays.

Cultural influences: Cultural norms and traditions can impact consumer preferences and demand for particular products.

Concept of Supply

- Supply is a fundamental economic concept that describes the total amount of a specific good or service that is available to consumers.
- Supply can relate to the amount available at a specific price or the amount available across a range of prices if displayed on a graph.
- All else being equal, the law of supply indicates that supply provided by producers will rise if the price rises because all firms look to maximize profits.

(www.investopedia.com)

- It is the amount of something that a particular seller or producer willing and capable to supply or provide to buyer. (www.study.com)

Determinants of supply:

Price of the Commodity: It is the main and the most important determinant of demand. When the price of the commodity is high, the producers or suppliers are willing to sell more commodities.

Thus, the supply of the commodity increases. Similarly, when the price is low the supply of the commodity decreases owing to the direct relationship between the price of a commodity and its supply.

Firm Goals: The supply of goods also depends on the goals of an organization. An organization may have various goals such as profit maximization, sales maximization, employment maximization, etc. Where the firm's objective is the maximization of profit, it will sell more goods when profits are high and less quantity of goods when the profits are low.

Price of Inputs: The cost of inputs such as labor, raw materials, and capital affects production costs and thus influences supply. When the price of inputs is low the cost of production is also low. Thus, at this point, the firms tend to supply more goods in the market and vice-versa.

Technology: Advances in technology can increase efficiency and lower production costs, leading to higher levels of supply.

Number of Sellers: More firms entering the market can increase overall supply, while fewer firms can decrease it.

Expectations: Expectations about future prices, changes in regulations, or technological advancements can influence current supply decisions.

When the producers or suppliers expect that the price shall increase in future they hoard the goods so that they can sell them at higher prices later. This will result in a decrease in the supply of goods. Similarly, in case they expect a fall in price, they will increase the supply of goods.

Prices of Related Goods: The prices of related goods, such as substitutes and complements, can affect the supply of a particular good.

When the price of complementary goods increases their supply also increases. Thus, this results in the increase in the supply of commodity also and vice-versa.

Also, when the price of the substitutes increases their supply also increases. This results in a decrease in the supply of goods.

Taxes and subsidies: Taxes increase production costs, reducing supply, while subsidies decrease costs and increase supply.

Weather conditions or Natural factors: Natural factors like weather and disasters can affect agricultural output and supply. The factors like weather conditions, flood, drought, pests, etc. also affect the supply of goods. When these factors are favorable the supply will increase.

Government regulations: Policies such as environmental regulations or trade restrictions can affect production costs and supply levels.

The taxation policies and the subsidies given by the government also impact the supply of goods. When the taxes are high the producers are unwilling to produce more goods and thus, the supply will decrease. On the other hand, when the government grants various subsidies and gives financial aids to the producers, they increase the production of goods. Thus, the supply also increases.

Joint supply: Some goods are produced together, so changes in the production of one affect the supply of the other.

Producer preferences: Changes in producers' preferences or goals can influence their willingness to supply goods and services.

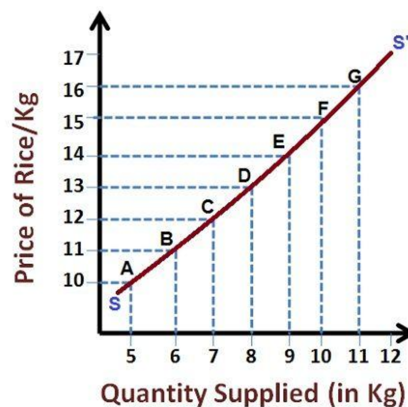
Infrastructure: Availability and quality of transportation, communication, and other infrastructure can influence supply.

Global factors: Changes in international trade, exchange rates, or geopolitical events can influence supply through their effects on input costs or market demand.

(www.toppr.com)

Law of Supply

- It states that, all other factors being equal, as the price of a good or service increases, the quantity of that good or service that suppliers offer will increase, and vice versa.
- In plain terms, this law means that as the price of an item goes up, suppliers will attempt to maximize their profits by increasing the number of that item that they sell.
- The law of supply says that a higher price will lead producers to supply a higher quantity to the market.
- Because businesses seek to increase revenue, when they expect to receive a higher price for something, they will produce more of it.
- Meanwhile, if prices fall, suppliers are demotivated from producing as much. (www.investopedia.com)
- The upward slope of the supply curve illustrates the law of supply—that a higher price leads to a higher quantity supplied, and vice versa.



Supply Curve (www.khanacademy.org)

Supply Schedule and Supply Curve

- A supply schedule is a table that shows the quantity supplied at each price.
- A supply curve is a graph that shows the quantity supplied at each price.
- Sometimes the supply curve is called a supply schedule because it is a graphical representation of the supply schedule. (www.khanacademy.org)

Here's an example of a supply schedule from the market for gasoline:

Price (per gallon)	Quantity supplied (millions of gallons)
$1.00	500
$1.20	550
$1.40	600
$1.60	640
$1.80	680
$2.00	700
$2.20	720

Supply Schedule (www.khanacademy.org)

Demand Schedule

- In economics, a demand schedule is a table that shows the quantity demanded of a good or service at different price levels.
- Analysts can estimate the demand for a good at any point along the demand schedule.
- A demand schedule most commonly consists of two columns. The first column lists the price for a product in ascending or descending order. The second column lists the quantity of the product desired or demanded at that price.
- When the data in the demand schedule is graphed to create the demand curve, it supplies a visual demonstration of the relationship between price and demand, allowing easy estimation of the demand for a product or service at any point along the curve.

(www.investopedia.com)

Market Demand Schedule	
Price ($)	Quantity Demanded (units)
5.00	610
10.00	460
15.00	350
20.00	270
25.00	220
30.00	180
35.00	150

Demand Curve

- A demand curve is a graphic display of the change in demand of a good resulting from a change in price in a given time period.
- On the demand curve graph, the vertical axis denotes the price and the horizontal axis denotes the quantity demanded.
- A demand curve can be a useful business tool because it can show the prices at which consumers start buying less or more.

(www.investopedia.com)

Demand Function

- A demand function is a mathematical function describing the relationship between a variable, like the demand of quantity, and various factors determining the demand.

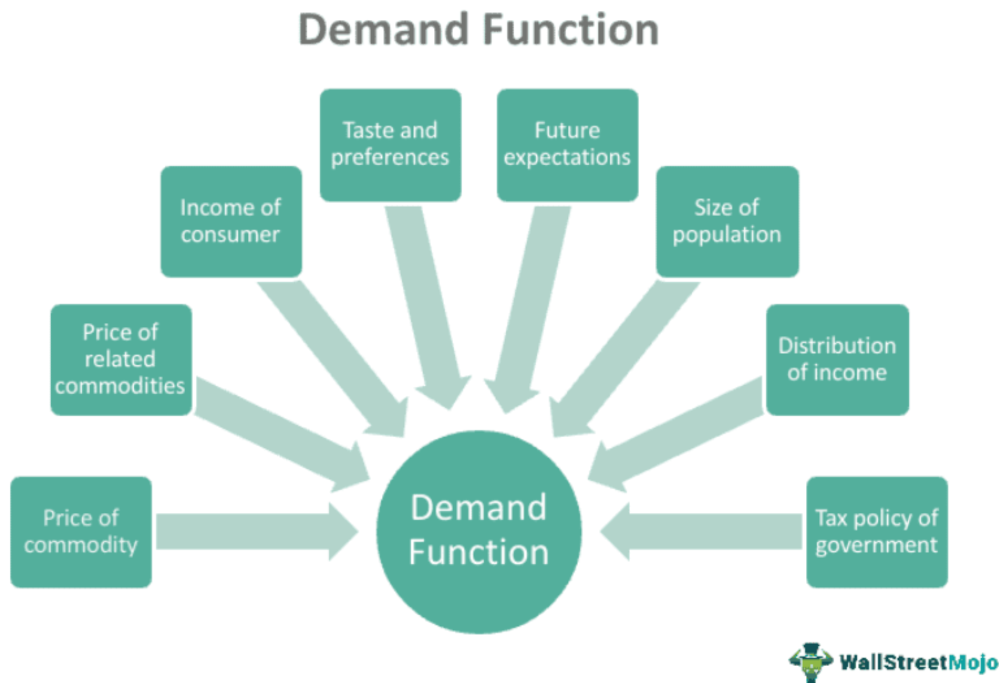
(www.wallstreetmojo.com)

- Demand function shows the functional relationship between Quantity demanded for a commodity and its various Determinants.
- Demand is a Function of: Dx=f(Px, I, Pr, E, T)

  where,

  - Demand of Commodity x (Dx)
  - Function of commodity x (f)
  - Price of good or service (Px)
  - Incomes of consumers (I)
  - Prices of related goods & services (PR)
  - Future Expectation of product (E)
  - Taste patterns of consumers (T)

(http://www.mmmut.ac.in/)



Cost Function

- Cost function refers to the functional relationship between cost and output. It studies the behaviour of cost at different levels of output when technology is assumed to be constant. It can be expressed as below: C= f(Q) (Here, C= Cost of production; and Q= Quantum of output).
  (byjus.com)
- Cost Function is a fundamental concept of microeconomics that is used to analyze the relationship between the production of goods and services and the cost incurred on their production.
- Three different types of costs are incurred during the production of a good or service. These are Total Cost, Average Cost, and Marginal Cost.
- Firms use cost functions to make decisions regarding production including output level, pricing, and resource allocation.
- The aim of using the cost function is to minimize costs and maximize the profits of the firm.
  (www.geeksforgeeks.org)

Total Cost

- Total cost refers to the overall cost of production, which includes both fixed and variable components of the cost. In economics, the total cost is described as the cost that is required to produce a product.
- Total Cost = Total Fixed Cost + Total Variable Cost
- **Fixed cost:** It is the cost that is constant. In other words, these are the costs that remain the same, irrespective of the number of units that are being produced. For example, the lease for a building or the rent for an apartment.
- **Variable cost:** Variable cost is the cost that changes (increases or decreases) based on the number of goods produced by a company or the service requirements of customers.(byjus.com)

Average Cost

- Average Cost equals the per-unit cost of production, which is calculated by dividing the total cost by the total output.
- For example, if a company produces 1,000 units of a product at a total cost of $10,000, the average cost per unit would be $10 ($10,000 ÷ 1,000 units). This means that on average, it costs the company $10 to produce each unit.
- Average Total Cost = Total Cost / Quantity of output (www.studysmarter.co.uk)
- Average cost is defined as per unit cost of production, which is the ratio of the total cost of production to the total number of units produced.
- In simple words, Average cost is the amount of money a firm or a business has to spend to produce a single unit of output. (testbook.com)

Marginal Cost

- Marginal cost is the extra cost incurred in producing one more unit of a product. It is the cost of producing one additional item.
- Simply put, marginal cost is the change in the cost for production when you decide to produce one more unit of a good.
- It is calculated by dividing the change in total cost by the change in the quantity of output.
- Marginal Cost = Change in Total Cost / Change in Quantity of Output (www.studysmarter.co.uk)

Market

- A market is a place where parties can gather to facilitate the exchange of goods and services.
- The parties involved are usually buyers and sellers.
- The market may be physical, like a retail outlet, where people meet face-to-face, or virtual, like an online market, where there is no physical presence or contact between buyers and sellers.
- Markets establish the prices of goods and services, determined by supply and demand.
- A market is any place where two or more parties can meet to engage in an economic transaction. (www.investopedia.com)
- Market is a means by which the exchange of goods and services takes place as a result of buyers and sellers being in contact with one another, either directly or through mediating agents or institutions. (www.britannica.com)

Features of Market

1. **An Area:** In economics, a market does not mean a particular place but the whole region where sellers and buyers of a product are spread. Modern modes of communication and transport have made the market area for a product very wide.
2. **Commodity:** In economics, a market is not only related to a place but to a particular product. Hence, there are separate markets for various commodities. For example, there are separate markets for clothes, grains, jewellery, etc.
3. **Buyers and Sellers:** The presence of buyers and sellers is necessary for the sale and purchase of a product in the market. (www.toppr.com)
4. **Competition:** There should be competition among buyers and sellers in the market. This competition is in relation to the price determination of a product among buyers and sellers.
5. **Price:** There will be price of a product in the market and which is decided by the force of demand and supply.
6. **Elasticity:** The responsiveness of quantity demanded or supplied to changes in price or other factors influences market behavior and outcomes.
7. **Consumer Preferences:** Consumer preferences influence the types of goods and services produces and the prices at which they are sold.
8. **Market Structure:** This refers to the organization of sellers and buyers within a market, including factors such as the number of firms, barriers to entry and degree of product differentiation.
9. **Innovation:** Innovation is the practical implementation of ideas that result in the introduction of new goods or services or improvement in offering goods or services. Market provides platform for innovation.
10. **Freedom:** Freedom in entry and exit of firms results in price stability in the market.

Types of the market or Forms of Market:

Monopoly:

A monopolistic market is a market formation with the qualities of a pure market. A pure monopoly can only exist when one provider gives a specific service or a product to numerous customers. For example, the Indian Railway, Electricity etc. (byjus.com)

A monopoly market, in simple terms, means a single seller selling a unique product. The seller dominates the market by offering a unique product, setting its own prices, and high barriers restricting new entrants.

A monopoly market is a market structure wherein there is only one seller of a product, and the seller sells a unique product. In a monopoly, the seller has the absolute power to sell their product and determine the price. New businesses often find it challenging to enter the monopoly markets as there are high entry barriers. (www.tickertape.in)

Feature of Monopoly:

1. Single Seller of the Product
2. Entry Restrictions on new firm
3. No Close Substitutes
4. Price Maker
5. Price Discrimination
6. The monopoly business might own a resource not owned by any other business.

Perfect Competition:

This type of market structure refers to the market that consists of a large number of buyers and also a large number of sellers. No individual seller is able to influence the price of an existing product in the market. All sellers in a perfect competition produce homogenous outputs, i.e. the outputs of all the sellers are similar to each other and the products are uniformly priced.

Features of Perfect Competition

1. A large number of buyers and sellers
2. Homogenous products
3. Free exit and entry of firms
4. Perfect knowledge among buyers and sellers
5. No transport costs
6. Perfect mobility of factors of production
7. No promotional and selling costs

Monopolistic Competition

- Monopolistic competition exists when many companies offer competing products or services that are similar, but not perfect, substitutes.
- The barriers to entry in a monopolistic competitive industry are low.
- The competing companies differentiate themselves based on pricing and marketing decisions. (www.investopedia.com)
- In Monopolistic Competition, there are many producers competing against each other, but selling products that are differentiated from one another (e.g. by branding or quality) and hence are not perfect substitutes.
- There are many producers and many consumers in the market, and no business has total control over the market price.
- Producers have a degree of control over price.
- Each company earns only normal profit in the long run.
- Each company spends substantial amount on advertisement. The publicity and advertisement costs are known as selling costs. (en.wikipedia.org)

Characteristics of Monopolistic Competition

Low Barriers to Entry: In monopolistic competition, one firm does not monopolize the market and multiple companies can enter the market and all can compete for a market share. Companies do not need to consider how their decisions influence competitors so each firm can operate without fear of raising competition.

Product Differentiation: Competing companies differentiate their similar products with distinct marketing strategies, brand names, and different quality levels.

Firms are price setters: Companies in monopolistic competition act as price makers and set prices for goods and services. Firms in monopolistic competition can raise or lower prices without inciting a price war.

Demand Elasticity: Demand is highly elastic in monopolistic competition and very responsive to price changes. Consumers will change from one brand name to another for items like laundry detergent based solely on price increases. (www.investopedia.com)

Many Companies: There are many companies in each product group and many companies on the side lines prepared to enter the market.

Market Power: Market power means that the company has control over the terms and conditions of exchange. All MC companies are price makers. Companies can raise its prices without losing all its customers.

Oligopoly Market

- Oligopoly markets are markets dominated by a small number of suppliers.
- An oligopoly is a type of market structure in which a small number of firms control the market.
- Where oligopolies exists, producers can indirectly or directly restrict output or prices to achieve higher returns.
- A key characteristic of an oligopoly is that no one firm can keep the others from having significant influence over the market.
- An oligopoly differs from a monopoly, in which one firm dominates a market.
- An oligopoly is a market structure wherein a small number of producers work to restrict output or fix prices so they can achieve above-normal market returns.
  (www.investopedia.com)
- An Oligopoly market situation is also called 'competition among the few'.
- An oligopoly is an industry which is dominated by a few firms. In this market, there are a few firms which sell homogeneous or differentiated products.
- Also, as there are few sellers in the market, every seller influences the behavior of the other firms and other firms influence it.

Characteristics of Oligopoly

Now that the Oligopoly definition is clear, it's time to look at the characteristics of Oligopoly:

Few firms

Under Oligopoly, there are a few large firms although the exact number of firms is undefined. Also, there is severe competition since each firm produces a significant portion of the total output.

Barriers to Entry

Under Oligopoly, a firm can earn super-normal profits in the long run as there are barriers to entry like patents, licenses, control over crucial raw materials, etc. These barriers prevent the entry of new firms into the industry.

Non-Price Competition

Firms try to avoid price competition due to the fear of price wars in Oligopoly and hence depend on non-price methods like advertising, after sales services, warranties, etc. This ensures that firms can influence demand and build brand recognition.

Interdependence

Under Oligopoly, since a few firms hold a significant share in the total output of the industry, each firm is affected by the price and output decisions of rival firms. Therefore, there is a lot of interdependence among firms in an oligopoly. Hence, a firm takes into account the action and reaction of its competing firms while determining its price and output levels.

Nature of the Product

Under oligopoly, the products of the firms are either homogeneous or differentiated.

Selling Costs

Since firms try to avoid price competition and there is a huge interdependence among firms, selling costs are highly important for competing against rival firms for a larger market share.

No unique pattern of pricing behavior

Under Oligopoly, firms want to act independently and earn maximum profits on one hand and cooperate with rivals to remove uncertainty on the other hand.

Depending on their motives, situations in real-life can vary making predicting the pattern of pricing behavior among firms impossible. The firms can compete or collude with other firms which can lead to different pricing situations.

Indeterminateness of the Demand Curve

Unlike other market structures, under Oligopoly, it is not possible to determine the demand curve of a firm. This is because on one hand, there is a huge interdependence among rivals. And on the other hand there is uncertainty regarding the reaction of the rivals. The rivals can react in different ways when a firm changes its price and that makes the demand curve indeterminate.

(www.toppr.com)