SPD College, Garhwa (JH)

Department of Economics

Presentation on:

Value under Perfect Competition Market

(UG Sem-I:Micro Economics : NEP)

For publication on :

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Main Points of the topic

- Introduction
- Meaning of Perfect Competitive Market
- Characteristics / Features
- Price determination/euilibrium
- Diagrammatic representation
- Effects of Change in Demand & Supply on Price

Introduction of market

- In Economics, market does not refers to any particular place only where commodities and services are sold and purchased, but it refers the mediums by which the buyers and sellers are contacted to one another and purchase and sell commodities and services.

Meaning of Perfect Competition

- It is a market wherein there are large number of buyers and sellers of homogeneous product and the price of the product is determined by equilibrium of demand and supply forces. There is one price that prevails in the market and all the buyers and sellers accept the prevailing price.

Features / Characteristics

- Large number of buyers and sellers.
- Homogeneous product.
- Perfect knowledge of market.
- Free entry and exit of firms in the industry.
- Uniform price.
- Free mobility of factors.
- No extra transportation cost.
- Freedom of buyers and sellers.
- Absence of price control.

Price under Perfect Competition

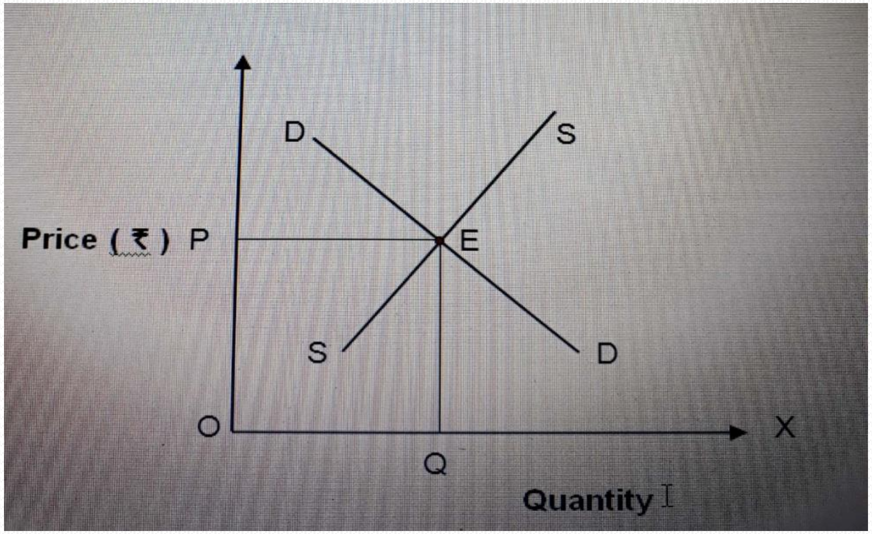
- Under perfect competition, price of a commodity is determined by the forces of market supply and market demand. Equilibrium price occurs at a point where the demand for a commodity is equal to market supply of the commodity

Equilibrium Price : Market Demand = Market Supply

Price of Pen (₹)	Quantity Demanded	Quantity Supplied
12	100	500
10	200	400
8	**300**	**300**
6	400	200
4	500	100

Table shows that when the price of pen is ₹ 8 / unit, the demand is 300 and supply is also 300 units. Thus ₹ 8 / per pen will be called equilibrium price of pen.

Diagrammatic Representation

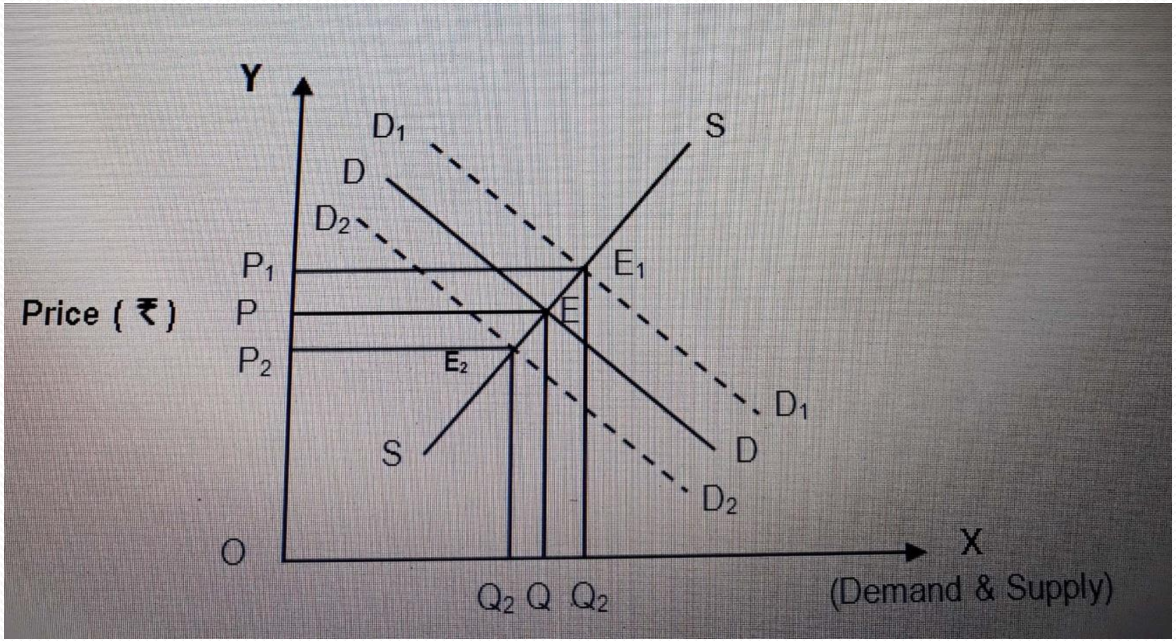


In the figure, DD is demand curve and SS is supply curve. Both the curves meet / cut together at the point E that is equilibrium point. The equilibrium price will be determined OP and the quantity OQ will be sold and purchased in the market.

Effects of Change in Demand & Supply on Price

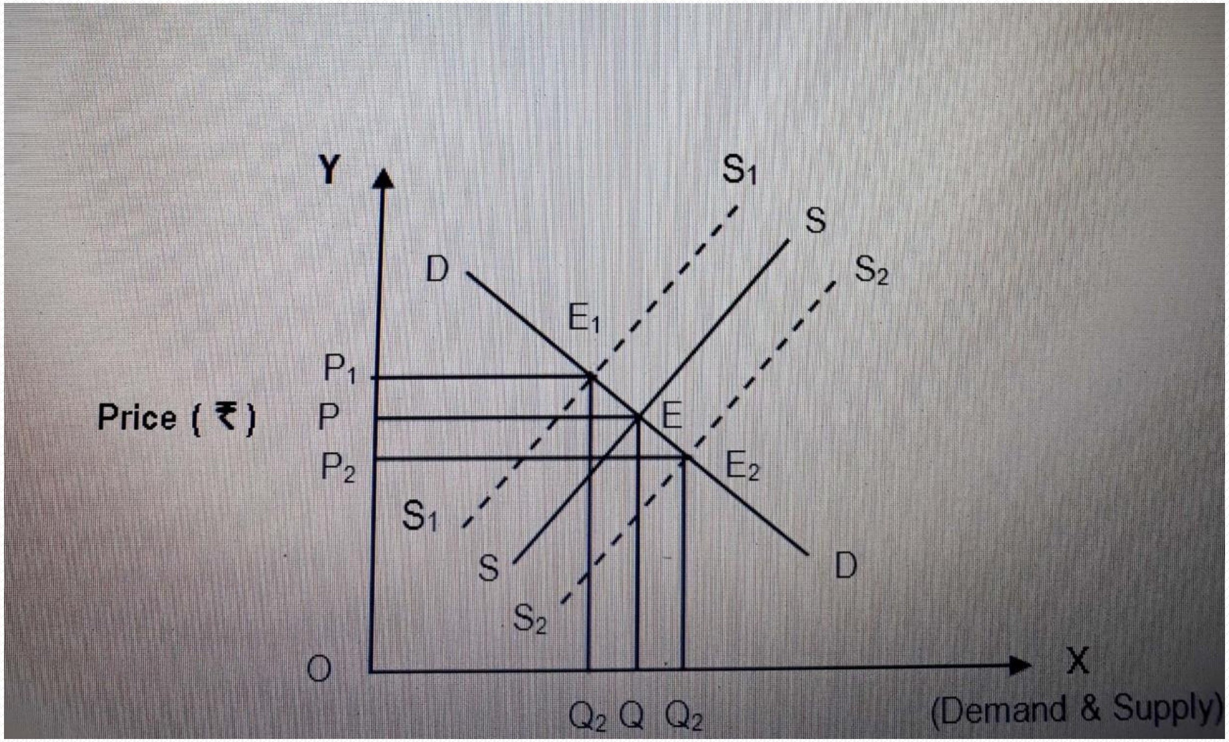
- The change in quantity demanded and quantity supplied affects the equilibrium price in perfect competition. When demand increases, the demand curve shifts rightward and if demand decreases, the demand curve shifts leftward direction assuming supply remains constant. It has been shown in the figure given below :

Demonstration by diagram



In the figure, quantity supplied is constant as SS and demand increase and demand curve become D_1D_1. The new equilibrium occurs at point E_1 and price become OP_1. Similarly, when demand decreases, the demand curve becomes D_2D_2 and new equilibrium occurs at point E_2. Consequently price declines to OP_2.

change in supply when demand remains constant



In the above diagram, quantity demanded is constant as DD and supply increase and the supply curve become S_2S_2. The new equilibrium is held at point E_2 and price becomes OP_2. Similarly, when supply decreases, the supply curve becomes S_1S_1 and new equilibrium occurs at point E_1. Consequently price increases to OP_1.

______ The End ______

Thanks for watching

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