214en12

12

MARKET

In previous lesson we studied about production and factors of production. Whatever goods are produced by the combined efforts of factors of production have to be placed in market or offered for sale in the market. Whenever and wherever we want to have anything, we go to the market and buy that thing. It may be soap, shampoo, cloth, and so on.

OBJECTIVES

After completing this lesson, you will be able to:

- *explain the meaning of market;*
- *understand the structure of market;*
- *distinguish the markets on the basis of channels of distribution;*
- *explain the meaning of online market.*

12.1 MEANING OF MARKET

Ordinarily, the term market refers to a place, where goods are purchased and sold, such as Big Bazaars, Chandni Chowk in Delhi, Fashion Street in Mumbai and many more. Market should not be limited to a particular place. In economics Market can exist even without personal contact of buyers and sellers. In this way, **"Market refers to the arrangement in a given area whereby buyers and sellers come in contact with each other directly or indirectly, to buy or sells goods."** This definition indicates that face to face contact is not necessary for market. Buyers and sellers can carry on their transaction indirectly, through agents, telephone, mobile or internet. Whatever way the buyers and sellers interact, they do so to exchange goods and services for money. In the process, the price and quantity of the goods and services traded are also determined.

Thus, market is a mechanism or system by which buyers and sellers interact to determine the price and quantity of a good or service."

Important Features of a Market

As per the definition stated above, a market has following features:

1. ***Commodity, i.e.,* there must be a commodity which is being demanded and sold.**
2. ***Buyers and sellers, i.e., there must be buyers and sellers of the commodity.***
3. **Communication, i.e., there must be communication between buyers and sellers.**

INTEXT QUESTIONS 12.1

Fill in the blanks.

1. A market exists where there is .... between buyers and sellers.
2. Buying and selling takes place in a ....
3. The process of .... and .... takes place simultaneously in market place.
4. A market has existence of buyers and sellers, communication between them and ....

12.2 STRUCTURE OF MARKET

By "structure of market" we mean nature of the product, number of sellers and buyers in the market etc. On this basis we can give two extreme forms of market:

1. Monopoly market
2. Perfectly Competitive market

12.2.1 Monopoly

The word "Monopoly" has been derived from the two Greek words 'Monos' and 'Polus' means single seller.' Monos' means single and 'Polus' means seller , so the word "Monopoly" means single seller. Monopoly is a market structure in which there is a single firm producing all the output and there is no close substitute of product sold by the monopolist, thereby ruling out any sort of competition. In this market the seller does not face any competition because there are no other sellers of the product he is selling. The seller is in a position to charge a high price of his product depending upon the response of the consumers. ***Example: In India the government has monopoly in atomic energy, defence, public water supply system, railways, etc.***

Features of Monopoly

(i) **A single firm:** The monopolist is the only producer of the good. He has got no competitor. He is the only one who rules the market with his commodity.

(ii) **No close substitute of the commodity:** There are no close substitutes of the commodity produced by the monopolist. "Close substitute" means another similar product having same use. The monopolist produces all the output in a particular market.

(iii) **Price maker:** The monopolist being the sole seller of the commodity in the market decides the price of the commodity as there is no one to challenge his price. The monopolist is a 'price-maker'. It does not mean that monopolist can fix both price and the quantity demanded. If he fixes a high price, less quantity of the commodity will be demanded.

(iv) **No Entry of New Firm:** It is not possible for new firms to enter in the market and compete with the single seller. Being the single seller or firm, there is no difference between firm and industry under monopoly.

(v) **The aim of the monopolist is to maximise profit**

12.2.2 Perfectly Competitive market or Perfect Competition

The other extreme situation of monopoly market is called perfectly competitive market or perfect competition.

Feature of Perfect Competition

(i) **Large number of sellers and buyers** – As against monopoly market, a competitive market has large number of sellers selling the commodity to a large number of buyers.

(ii) **Homogeneous product**: Under perfect competition only a single product is sold. This means all the sellers sell the same type of product to buyers. So the product is a perfect substitute.

(iii) **Free entry and exit**: Under perfect competition there is no bar on any new firm or producer to enter the market to sell or produce the product. Similarly if any existing seller wants to exit then he is free to do so.

(iv) Every seller wants to earn **maximum profit**

(v) **The government's role is to provide protection to sellers and do not interfere in business.**

(vi) Under perfect competition sellers and buyers have **perfect knowledge** about the product.

(vii) There is no bar on factors of production such as labour etc. to move from one production unit to another to do work.

Market Structure in Real World Situation

The situation of monopoly or perfect competition is not seen in real world. As per law private monopoly is not allowed. Only monopoly by the government exists. Now-a-days the market is flooded with so many varieties of the same product that perfect competition in real sense also does not exist. Take the example of "soap" – a product meant for taking bath or washing hands. Under perfect competition it is expected that only one type of soap will be sold by many sellers. But in reality we have different brands of soaps available in the market and sold by different firms such as Lux, Dove, Liril, Godrej, Nim, Mysore Sandal, Johnsons, Hamam, dettol, Lifebuoy etc. These are all used for the same purpose i.e. taking bath. but they are different in terms of colour, packaging, fragrance etc. All these sellers also incur heavy expenditure on advertisement to sell their kind of soap. Contrary to perfect competition where there are many sellers selling a single product without any advertisement, in this case there are many sellers selling different variations of particular product. So we cannot say that this type of market is perfectly competitive. **This type of market is called monopolistic or imperfect competition.**

INTEXT QUESTIONS 12.2

1. What is meant by monopoly?
2. Give two examples of monopoly in India?
3. Why is there no difference between firm and industry under monopoly?
4. Whether the monopoly firm is price maker or price-taker?
5. What do you mean by "free entry" under perfect competition?
6. Say Yes or No
   (a) There is one seller under perfect competion.
   (b) There are different goods sold under perfect competition.
   (c) Government interferes in production under perfect competition.
   (d) Product is perfect substitute under perfect competition
   (e) Buyers have perfect knowledge abotu product under perfect competition

12.3 CLASSIFICATION OF MARKETS ON THE BASIS OF CHANNELS OF DISTRIBUTION OR SALEABLE LOTS

On the basis of channels or saleable lots, markets are classified into:

(a) Wholesale markets

(b) Retail markets.

(a) Wholesale markets

A wholesaler is a distributor or middleman who sells mainly to retailers and institutions, rather than consumers. When in a market goods are transacted in big lots it is called a wholesale market. Wholesalers usually do not sell goods in small lots. They usually sell to the retailers. The wholesaler is the essential link between manufacturers and end consumers. It is the presence of wholesalers that manufacturers are in comfort zone as they can sell their products in large quantities and focus on business and production.

(b) Retail markets

Retail consists of the sale of physical goods or merchandise from a fixed location, such as a departmental store, shopkeeper in small or individual lots for direct consumption by the purchaser. In retail markets, goods are sold in small lots. Retailers normally sell to the ultimate consumers.

Manufacturer $\rightarrow$ Wholesaler $\rightarrow$ Retailer $\rightarrow$ Consumers

In the channel of distribution of goods and services the position of a retailer is most important as it is indirect contact with the final consumers. So the location of the retail shop or outlet is very important as compared to wholesale business. A retail outlet must be located nearer to residential localities so that people can easily come to buy goods and services. The reatiler also has to incur lot of expenditure on decoration of offices shops and proper presentation of the commodities so that consumers are attracted towards the retail shop.

INTEXT QUESTIONS 12.3

1. Give some examples of retail outlet in your locality.
2. Define Wholesaler.
3. Define Retailer.
4. Define Retail Market.

12.4 ONLINE MARKET OR ONLINE SHOPPING

It is an innovative process whereby consumers directly buy goods or services from a seller without an intermediary service over the internet. It is also known as electronic commerce. Now a days, online shopping has become popular, shopping has evolved with the growth of technology. In this shopping one can use a credit card or debit card to make payments, however some systems enable users to create accounts and pay by alternative means, such as:

- Billing to mobile phones and landlines
- Cash on delivery

- Cheques
- Debit card
- Postal money order

Once payment has been accepted the goods or services can be delivered through downloading, distribution, in-store picking etc.

Online stores are usually available 24 hours a day, and many consumers have internet access both at work and at home so they can, rather than visiting any store or shop, they prefer to purchase through internet only.Online stores must describe the products for sale with text, photos, and multimedia files with detail instructions. In present scenario through online shopping one can shop for varieties of goods and services in no time. Over all, this mode of shopping has gained importance in recent years only due to exposure to technology in the market.

WHAT YOU HAVE LEARNT

- In economics market refers to the arrangement in a given area where buyers and sellers come in contact with each other directly or indirectly to buy or sell goods.
- Monopoly and Perfect Competition are two extreme forms of Market structure.
- Monopoly is a market structure in which one firm possesses control over the market. It is a market of single seller, who sells a unique product having no close substitutes
- Perfect Competition is a market structure where many firms sell a homogeneous product. There is free entry and exit under this market. Buyers and sellers have perfect knowledge about the market situation.
- A wholesaler is a distributor or middleman who sells mainly to retailers and institutions, rather than consumers.
- A retailer is one who sells varieties of goods or services directly to the general public.
- Online shopping is the process whereby consumers directly buy goods or services from seller without any wastage of time, without an intermediary service, over internet on computer.
- Online shopping is a form of electronic commerce.

TERMINAL EXERCISE

1. Define Market.
2. Define Perfect Competition.

3. Define Monopoly.
4. Differentiate between Retail and Wholesale Market.
5. Explain the features of Perfect Competition.
6. Explain the features of Monopoly.
7. Do you think that retailer is concerned about location and presentation of goods that he offers for sale? If yes then why.

ANSWERS TO INTEXT QUESTIONS

Intext Questions 12.1

1. Interaction   2. Market place   3. Buying; Selling   4. commodity

Intext Questions 12.2

1. Monopoly is a market structure in which a single seller producing all the output and there is no close substitute of product sold by the monopolist.
2. Atomic energy, Indian Railways and Post and telegraph
3. Because monopolist is the single producer/seller,
4. Price -maker
5. "Free Entry" means sellers under perfect competition are free to move in and out of the market. There are no barriers on entry of new firms.
6. (a) no   (b) no   (c) no   (d) yes   (e) yes

Intext Questions 12.3

1. Stationery shops, Kendriya Bhandar, Mother dairy, Medicine shops
2. A wholesaler is a distributor or middleman who sells mainly to retailers and institutions, rather than consumers.
3. Retailer is one who sales goods or merchandise from fixed location such as departmental store, shopkeeper in small or individual lots for direct consumption by the purchaser.
4. Retail market means the market in which goods are sold in small lots to the ultimate consumers.