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Price Determination Under Perfect Competition

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Determination of Market Price

Market price is determined by the equilibrium between demand and supply in a market period or very short run.

The market period is a period in which the maximum that can be supplied is limited by the existing stock.



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The market period is so short that more cannot be produced in response to increased demand.

The firms can sell only what they have already produced.

This market period may be an hour, a day or a few days or even a few weeks depending upon the nature of the product

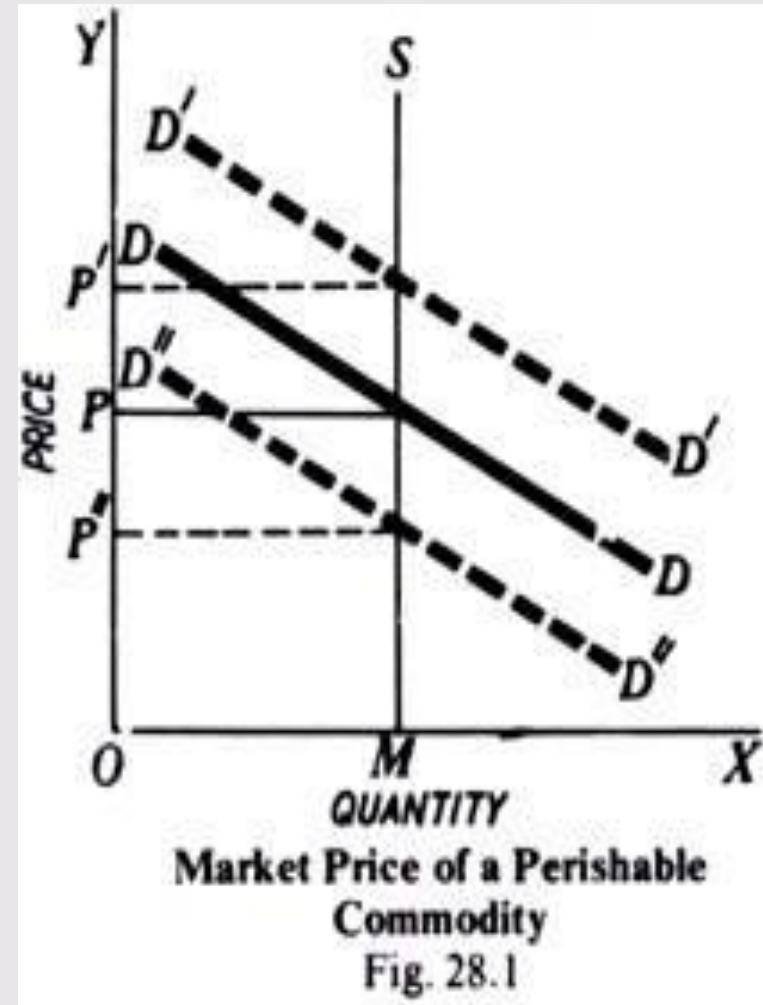


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Market Price of a Perishable Commodity

In the case of perishable commodity like fish, the supply is limited by the available quantity on that day, and it cannot be kept back for the next period and, therefore, the whole of it must be sold away on the same day, whatever the price may be



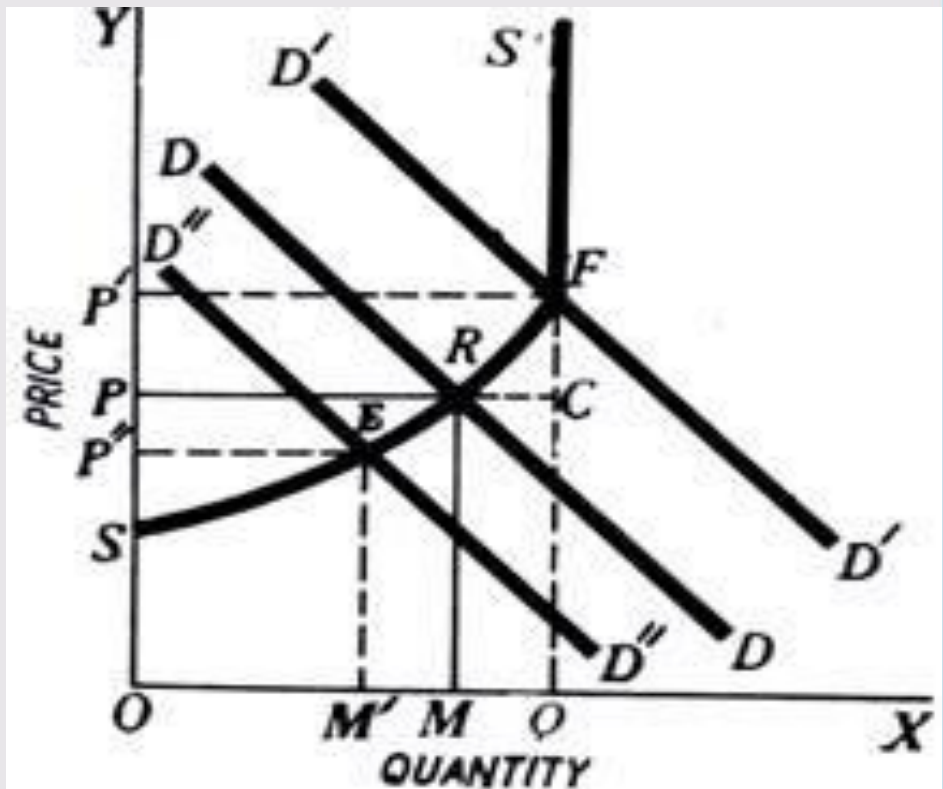


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Market Price of Non-Perishable and Reproducible Goods

In case of non-perishable but reproducible goods, supply curve cannot be a vertical straight line throughout its length, because some of the goods can be preserved or kept back from the market and carried over to the next market period



Market Price of a Durable
Commodity



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Price Determination in a Perfectly Competitive Market

In a perfectly competitive market, the number of buyers and sellers is large.

The buyers and sellers are in competition to buy and sell a homogeneous product.

The number of buyers and sellers in such a market is so large that each of them buys or sells a negligible fraction of the total quantity bought and sold in the market.

As a consequence, none of them has any individual influence on the process of price determination.



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Price determination

- (1) In the very short period
- (2) In the short period, and
- (3) In the long period.



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Price Determination in the Very Short Period

Very short period is a short span of time during which the supply of the good, generally, cannot be changed.

For example, the market for a good during the morning of a day may be called a very short period market.



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Price Determination in the Short Period

Time span in the short period is larger than that in the very short period

The firm can change the quantity of output produced and supplied in the short run by changing its use of the variable inputs.

Therefore, the firm can increase the quantity supplied of the good in the short run in response to an increase in its price



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Price Determination in the Long Period

The length of the long period is so long that in this period, the firm would be able to change the quantities used of the fixed factors along with those of the variable factors to produce a larger or a smaller quantity of output

In the long run, since the firm can change the quantities used of both the variable and the fixed factors, the supply of the good, in response to an increase in its price, may increase at a larger rate



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THANK YOU