SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

MARKET AND ITS BASIC ELEMENTS

LESSON II

Dr.Ingrid Majerova
Microeconomics/EVS/NAMIB

OUTLINE OF THE LECTURE

1. Characteristic of Market
2. Supply and Demand
3. Formation of Price
4. Competition
5. Function of Market

WHAT IS MARKET?

- Market is a place where supply and demand are confronted.
- The quantitative relationship in which the commodities (goods and services) are exchanged, is called the **exchange value**.
- The exchange value expressed in money is called ....?
- Commodities - goods and services that were produced for exchange.

ON THE MARKET OPERATE THE MARKET ENTITIES, WHICH CREATE DEMAND AND SUPPLY

FUNCTIONS OF MARKET

- The market economy has its clearly defined functions, which consist in finding answers to the following questions:

- **What?** - It solves the competition on the demand side (money, crown votes)
- **How?** - It determines the competition on the supply side (cost, quality, technical level)
- **For whom?** - It determines pensions, which are formed on the market of production factors (wages, rents, profits and interest).

- Perfectly competitive market (mostly abstract model) would be able to answer these questions itself (without other influences and interventions).

FUNCTIONS OF MARKET

- The imperfections of the market mechanism necessitate additional state intervention in the economy.

- **Socially oriented market economy** (Sweden) - these theories promoted significant government interventions in the market mechanism in order to maintain economic stability and social reconciliation.

- **Market (pure) economy** (USA) - promoted no or minimal state intervention in the market mechanism.

- The present system of developed countries is a compromise between market and state regulations.

TYPES OF MARKET

- **Teritorial aspects**
  - Local market - local shops in cities.

  Notebook market in KARVINA
  - National market - the market within the polity. Formed by merger (sum) of the local markets.

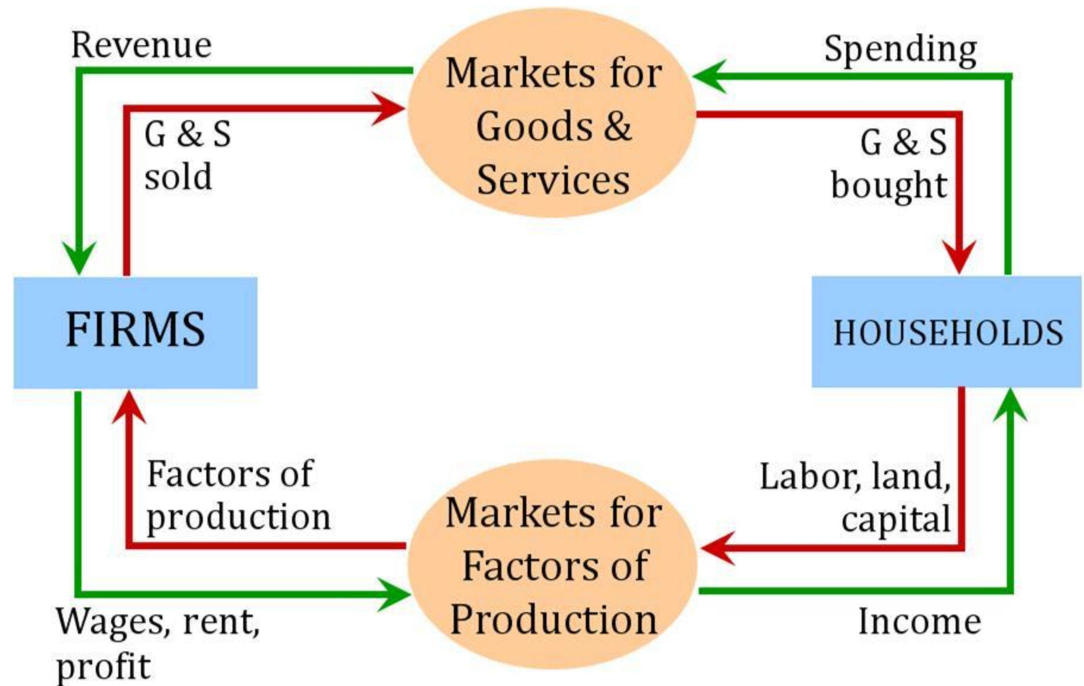
  Notebook market in CZECH REPUBLIC
  - International Market – (every product enters the global Marketplace)
    - Formed by merger (sum) of the national markets.

  The global notebook market

- Factual aspects
  - Sectional market - market which sells and buys a one kind of commodity
  - Aggregate market - the market of all commodities

ECONOMIC CIRCLE

- TWO MARKETS
  - MARKET FOR GOODS AND SERVICIES
  - MARKET FOR FoP
- TWO ENTITIES
  - HOUSHOLDS
  - FIRMS

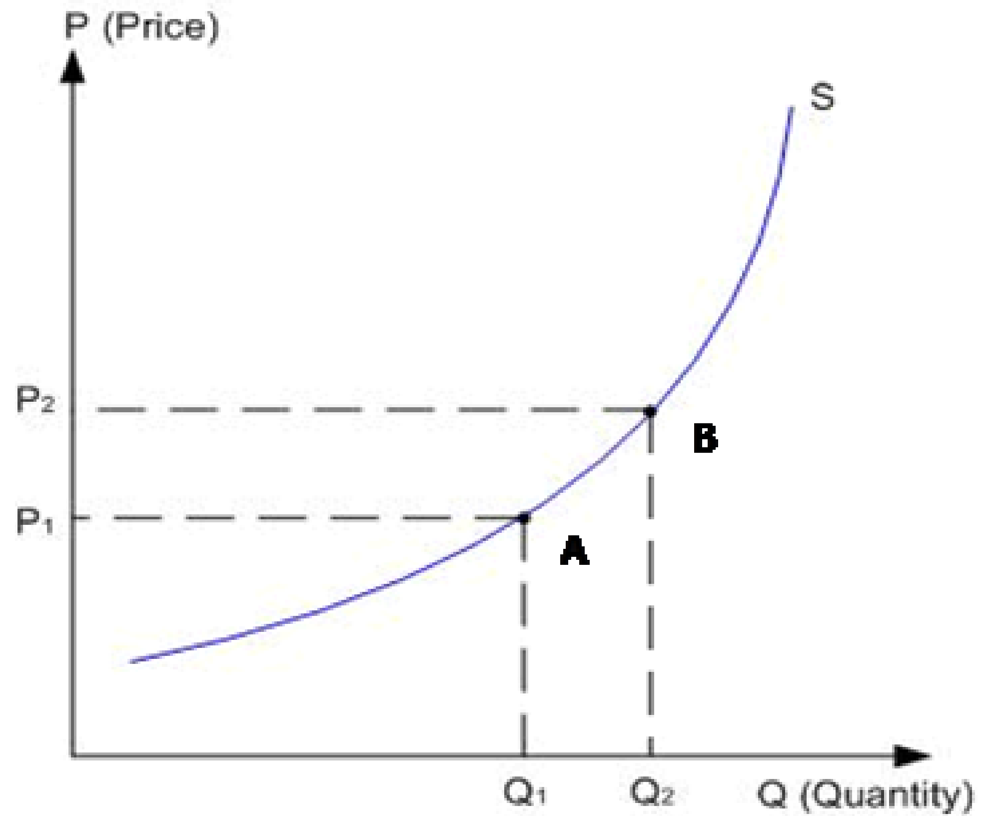


MARKET ENTITIES

- **Households** (target: to satisfy their needs, UTILITY MAXIMALIZATION)
  - they want to obtain the useful rare commodities for their needs
  - they offer FACTORS OF PRODUCTION to firms
- **Firms** (target: MAXIMIZE THE PROFITS)
  - They enter the market to transform products into money
- **State** (goal: INFLUENCE OF MARKET)
  - it removes the negative impact of the market influences and stimulates positive influences

SUPPLY CURVE

- The volume of supply (Q) is dependent on the price (P).
- The price is therefore independent and the quantity the dependent variable.
- The relationship between these two variables reflects the **supply curve**.



LAW OF INCREASING SUPPLY

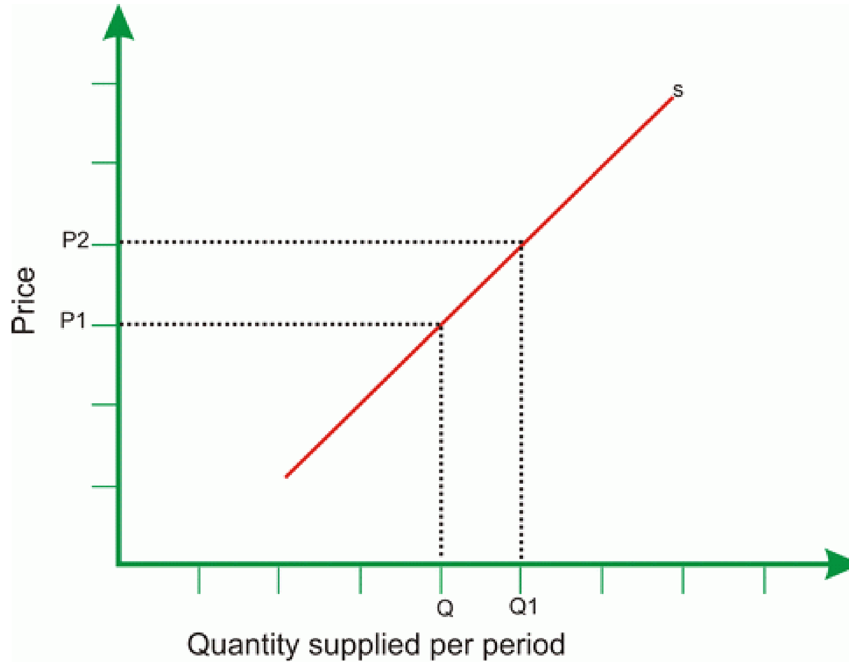
- **The law of increasing supply** – price growth causes an increase in the supply, the price drop causes a decrease in the supply.
- Price growth causes an increased interest in the production, it will attract other producers and the interest for production growth in those who previously produced less.
- Price growth → higher prices → higher incomes → possibility to buy more additional factors of production → expansion of production.

THE SUPPLIED QUANTITY AND SUPPLY

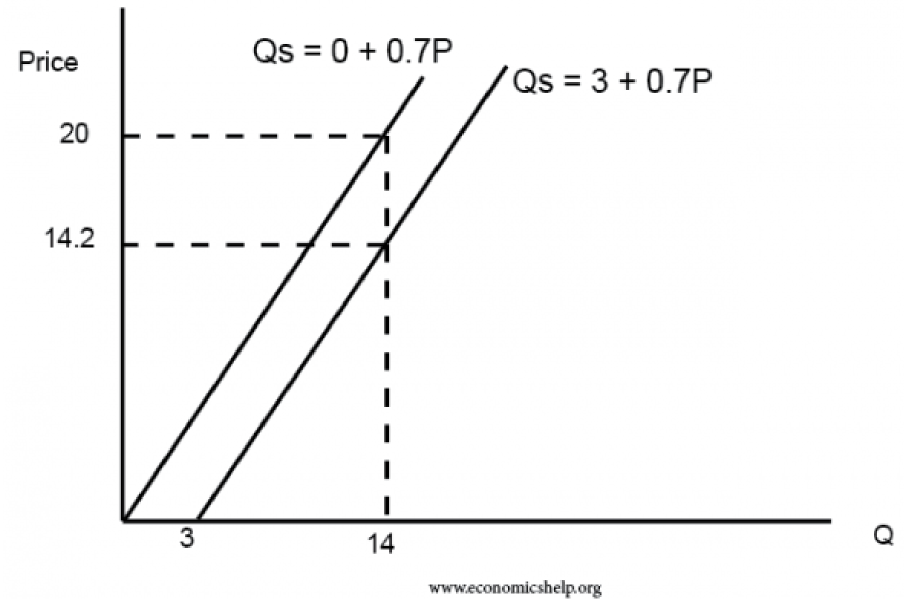
- From the term of **supply** we must distinguish the term the **supplied quantity**.
- **Supply** – is shown by the whole supply curve.
- **Supplied quantity** - a graphical representation of a point on the curve (supply volume at a particular price).
- We have clearly distinguished the terms:
  - **Shift along the curve** (change of supplied quantity due to price changes).
  - **Shift of the curve** (supply change caused by other than price effects).

THE CHANGE OF SUPPLY

CHANGE ALONG THE CURVE



CHANGE OF THE CURVE



DEMAND

- **Aggregate Demand** - AD
  - it is a summary of all planned purchases in the market
  - it is determined by the volume of demanded products and their prices.

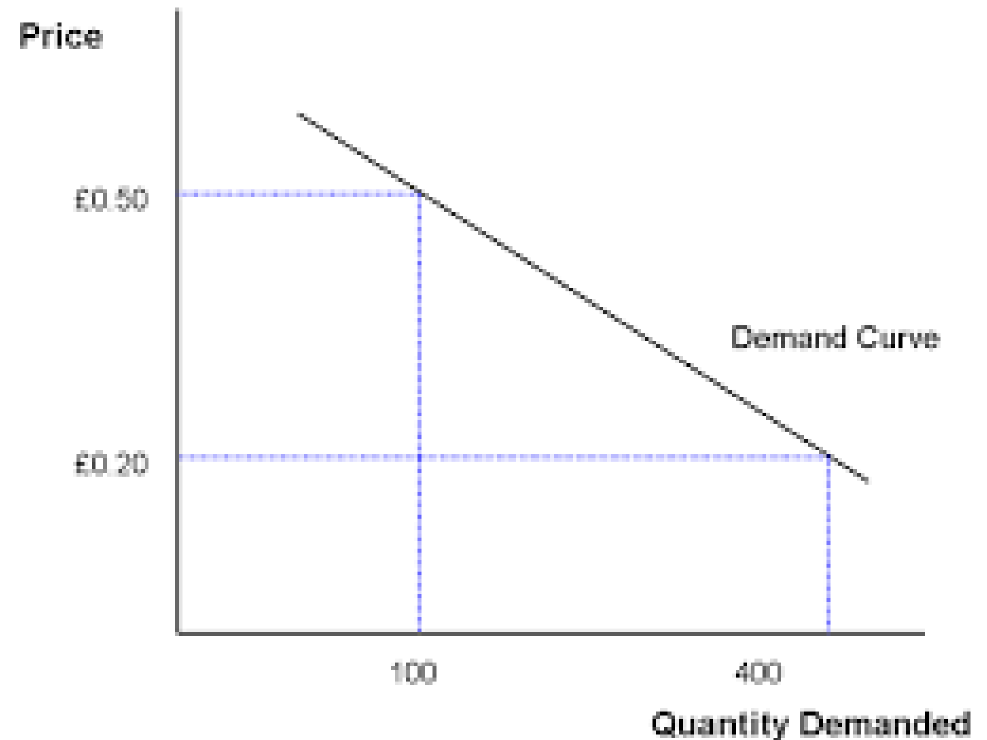
- **Individual demand** – d - the demand of a one buyer (the demand for the production of a one producer).

- **Market Dem**and - MD, respectively. D - the demand for one product.

- Economic theory is interested only in just demand within the budgetary limitations = **efficient purchasing power demand**.

DEMAND CURVE

- The volume of demand (Q) is dependent on the price (P).
- The price is therefore independent and the quantity the dependent variable.
- The relationship between these two variables reflects the **demand curve**.



LAW OF DIMISHING DEMAND

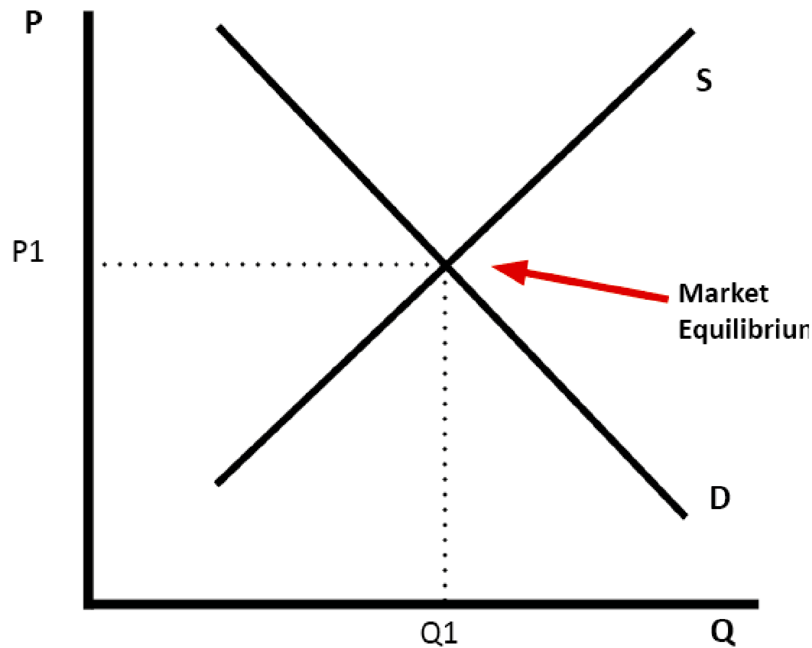
- **The law of diminishing demand** - when the price rises, demand falls, when the price drops, demand rises.
- When the price falls, commodity is cheaper, and thus more appealing to demand.
- A lower price will also enable within unchanged budgetary limitations to buy more goods to those who previously shopped less.
- For some kinds of goods that anyone buys, a price reduction will attract more buyers.
- Low price makes available the commodities and is a major psychological factor, which causes an increase in demand.

PRICE

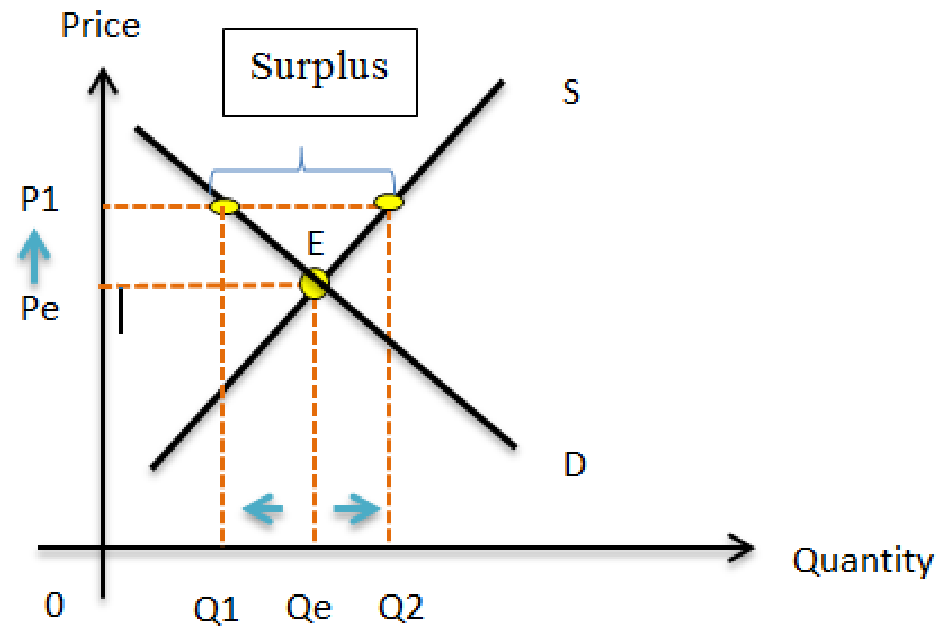
- **The market is in equilibrium** when the supply equals the demand.
- **The equilibrium price -** the price at which trades in case of equality of supply and demand.
- **Equilibrium state is very rare and exceptional -** there is a constant confrontation of supply and demand.
- **Market price** - the price that arises in the market at current supply and demand conditions.

FORMATION OF THE PRICE – MARKET EQUILIBRIUM

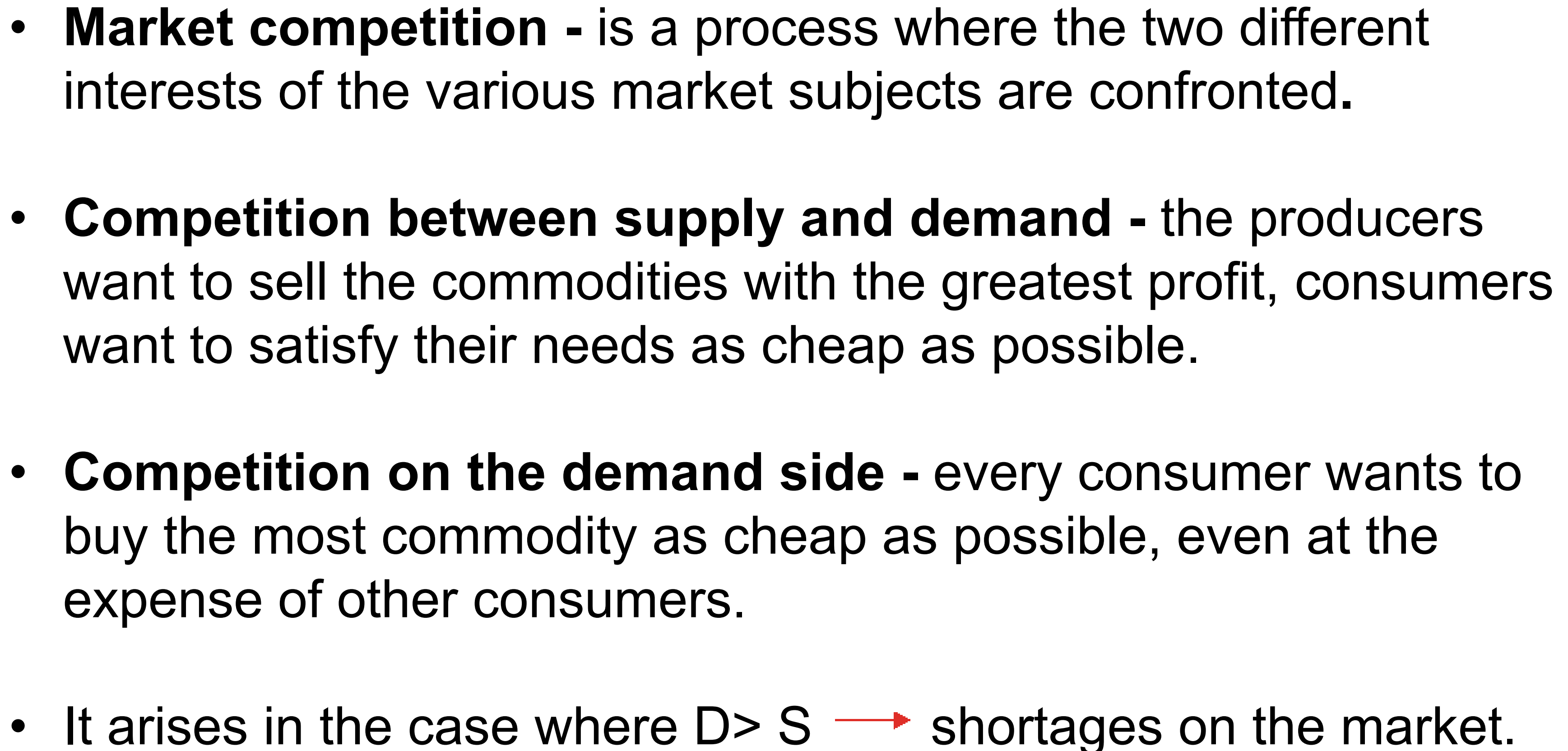
MARKET EQUILIBRIUM



FORMATION OF PRICE



COMPETITION



- **Market competition -** is a process where the two different interests of the various market subjects are confronted**.**
- **Competition between supply and demand -** the producers want to sell the commodities with the greatest profit, consumers want to satisfy their needs as cheap as possible.
- **Competition on the demand side -** every consumer wants to buy the most commodity as cheap as possible, even at the expense of other consumers.
- It arises in the case where D> S → shortages on the market.

COMPETITION

- **Competition on the supply side -** every producer is trying to get the greatest possible market share → PROFIT.

- **S > D** - competition becomes a fight for survival, who reduces the price, will lose, the point is who will lose the least.

- **S < D** – the point is who can best take advantage of the prices growth and makes the most profit. This firm then creates the best conditions to dominate the greater part of the market.

PRICE AND NON-PRICE COMPETITION

- Basic forms of competition on the supply side:
- **Price competition** - voluntary price cuts by manufacturers, without being forced to excess supply over demand → attracting the consumers.
- **Non-price competition** - attracting demand, but with other (non-price) methods (quality, advertising, packaging, discounts, service, additional services).
- **Competition on the supply side = connection the price and non-price competition**

PERFECT AND IMPERFECT COMPETITION

- **Perfect competition** - abstract economic theory (in the real world we seek it hard, but still exists).

- Perfect competition = absolutely equal conditions for all its participants
  – free entry to the sector
  – the same level of information for all market subjects
  – many manufacturers on the market of one product
  – homogeneous production

PERFECT COMPETITION

- The producer can not influence the market price of production (market price changes when the price of all other products on the market are changed).

- The only method to maximize profit in perfect competition in the uchanged scale of production is the elimination of unnecessary production costs.

- Perfect competition = producer are directly interested in the searching of savings → in it is its perfection.

IMPERFECT COMPETITION

- In the real world we meet with various forms of imperfect competition →
- **Monopolistic competition**
- **Oligopoly**
- **Monopoly**

MONOPOLISTIC COMPETITION

- Characteristics of monopolistic competition:
  - Market one of product with many manufacturers
  - Free entry to this market
  - The product is differentiated
  - Prices of different product types may vary

- All kinds of price and non-price competition are promoted = **profit improvement can be achieved in another way than finding savings in production**.

OLIGOPOLY

- The imperfection is greater than by monopolistic competition.
- Only a few producers remained on he market with considerable economic strength = preventing candidates to enter the market (access to the sector is thus limited).
- Oligopoly forcing consumers to buy at higher prices (less produced).
- The competition takes place mainly in non-price field.

MONOPOLY

- The only producer of an product on the market = absolute power over the consumer.
- Monopoly = real liquidation of the competition on the supply side.
- Price growth is limited only by the purchasing power of consumers.
- The opposite extreme of perfect competition, but not unreal !!
- Paralysis of the market mechanism must be accompanied by government regulation.

FUNCTION OF THE MARKET

- The market, in spite of all its imperfections, is the only tool that can answer the questions:

- what?
- how?
- for whom?

- **The market is therefore required.**

- **The market is so far the most advanced identified regulator and stimulator of economic development.**

THANK YOU FOR YOUR ATTENTION…