

**BEC1116**

**Principles of Economics**

**Market: Price and Quantity  
Determination**

# Meaning of the Market

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## Economic meaning

A market refers to a situation in which buyers and sellers are able to contact and agree to buy and sell with one another. Buyers and sellers may or may not meet physically, depending on the agreements for trading goods and services.

Markets can range in scope from the local level to the national level or even international markets. Goods traded in markets include everything that can be exchanged, ranging from

**tangible goods** such as vegetables, fruits, and clothing, to **intangible goods** such as services, for example nursing care for patients, airline cabin crew services, or hotel services, etc.

# Market Structure

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Market structure can be divided into various types according to the objectives of classification. The criteria used for classification may include the use of goods, such as consumer goods markets and producer goods markets, or the classification of goods within each industry, such as agricultural product markets or industrial product markets.

However, **in economic studies**, the analysis focuses on the decision-making of business units, which determines the quantity and price of goods in a market. Emphasis is placed on classifying markets based on the nature of competition that exists within them. The markets can be classified as follows:

**Perfectly Competitive Market**

**Imperfectly Competitive Market**

# Market Classification

Markets can be classified into two major types as follows

## 1. Perfectly Competitive Market

This refers to a market in which there is full competition between buyers and sellers. As a result, the price or quantity of goods in the market is not influenced by any single buyer or seller. Instead, prices and quantities are determined by market mechanisms.

## 2. Imperfectly Competitive Market

This refers to a market in which buyers or sellers have some degree of influence over the determination of prices or quantities of goods in the market. The degree of market imperfection varies depending on how intense the competition is. Examples of imperfectly competitive markets include:

# Characteristics of a Perfectly Competitive Market

## 1. A large number of buyers and sellers

- Individual buyers and sellers have no influence over the price of goods. Both buyers and sellers accept the price and quantity determined by market demand and supply.

## 2. Homogeneous products

- Goods traded in the market are identical in all aspects.
- Product differentiation is not possible.

## 3. Buyers and sellers have perfect information about market conditions

- They are fully informed about news and changes in prices.

## 4. Free entry and exit from the market

- There are no barriers or restrictions, whether legal, financial, or due to obstruction by existing producers, in conducting economic activities.

- Profit or loss serves as the signal for firms to enter or exit the market.

# Profit or Loss of a Firm in a Perfectly Competitive Market

## Economic Profit

### Normal Profit

- It is profit in which opportunity costs are included as part of total cost.
- If  $TR = TC$ , this is called **normal profit**, or economic profit equals zero, because the return that the entrepreneur should receive has already been included in costs.
- In the short run, even if a producer earns no normal profit, production may continue because it helps reduce part of the fixed costs.
- In the long run, if a producer does not earn normal profit, production will cease.

### Excess Profit

- It is true economic profit, occurring when  $TR > TC$ , which is called economic profit.
- In the short run, a perfectly competitive market may generate excess profit.
- In the long run, excess profit attracts new firms to enter the market, causing excess profit to disappear; producers earn only normal profit.

# Imperfect Competition Markets

## 1. Monopoly Market

A monopoly market is a market in which there is only one firm operating, and no close substitutes are available. Entry of new firms into the industry is impossible due to barriers such as legal restrictions, government concessions, or exclusive control over key factors of production.

Examples include tobacco manufacturing factories, electricity generation, and water supply services in Thailand.

## 2. Oligopoly Market

An oligopoly market is a market with a small number of producers, typically two or three firms, producing goods for the market. The products may be differentiated but can substitute for one another. Market entry and exit are relatively free; however, it is difficult for new firms to enter and compete with existing producers.

## 3. Monopolistic Competition Market

A monopolistic competition market lies between perfect competition and monopoly, leaning closer to perfect competition. This type of market consists of a large number of sellers offering differentiated products that can substitute for one another. Firms can freely enter and exit the market.

As a result of these characteristics, each firm has some degree of monopoly power over its own product while simultaneously facing competition from other firms in the market.

# Comparison of Market Outcomes

	Perfect Competition Market	Monopolistic Competition Market	Oligopoly Market	Monopoly Market	
1	Number of producers	Many	Many	Few	One
2	Product characteristics	Homogeneous	Differentiated	May be homogeneous or differentiated	No close substitutes
3	Barriers to entry	None	None	Some	High or impossible
4	Producers' ability to set prices	Price takers	Price makers	Price makers	Price makers
5	Long-run profit	0	0	$\geq 0$	$\geq 0$
6	Examples of products in the market	Agricultural products such as corn and sugarcane	Electrical appliances, food, ready-made clothing	Oil, commercial aircraft, mobile phone services	Tobacco, electricity, water supply

# Price Determination

## and Equilibrium Quantity in the Operation of the Price Mechanism

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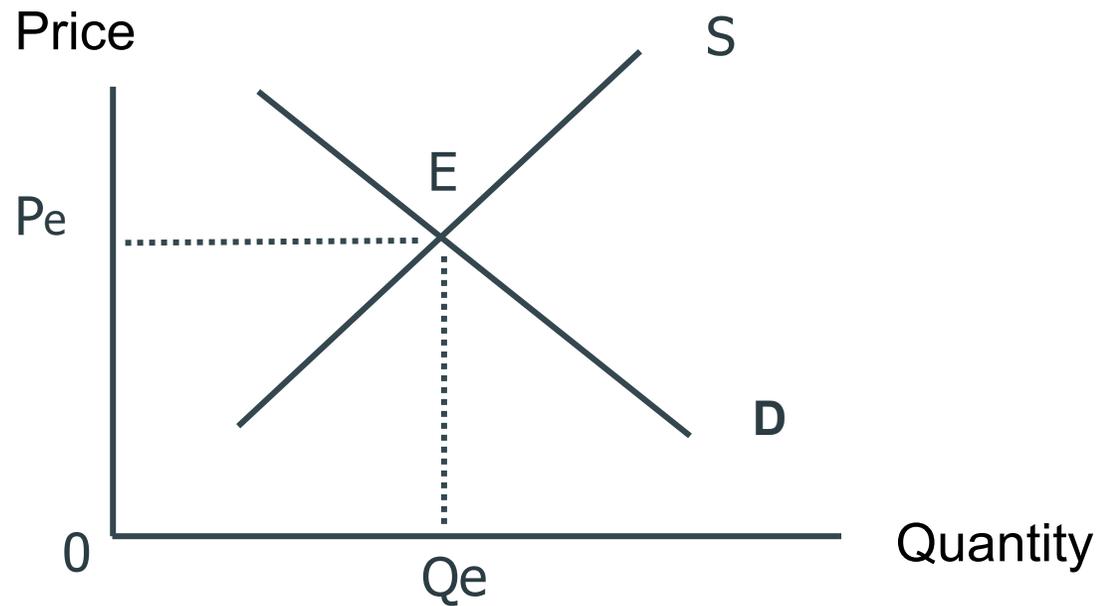
- In a free-market system, prices of goods in the market are determined by market forces.
- Buyers are represented through market demand.
- Sellers are represented through market supply.
- A transaction occurs when both parties agree on the same price and quantity at a given point.
- This determination is analyzed by considering demand and supply together.

# Equilibrium Price and Equilibrium Quantity

- **Market Equilibrium** refers to a situation in which the price level and the quantity of goods remain unchanged, provided that there are no external factors affecting the market.
- **Equilibrium Price** is the price at which consumers are willing to buy and producers are willing to sell at the same price.
- **Equilibrium Quantity** is the quantity at which the amount consumers are willing to buy is equal to the amount producers are willing to sell.

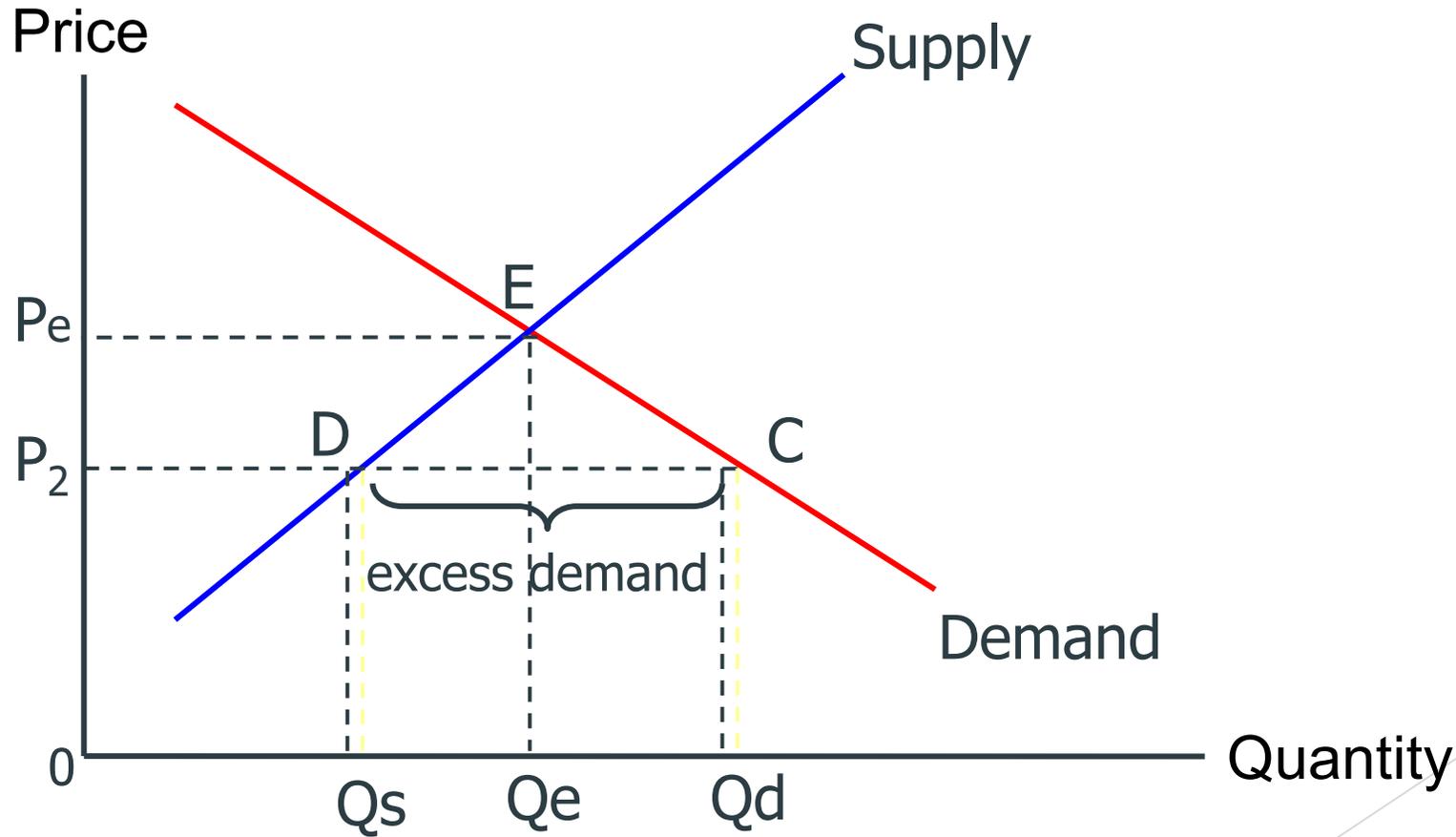
# Market Equilibrium

Equilibrium Price and Equilibrium Quantity in the Market



# Adjustment toward Market Equilibrium

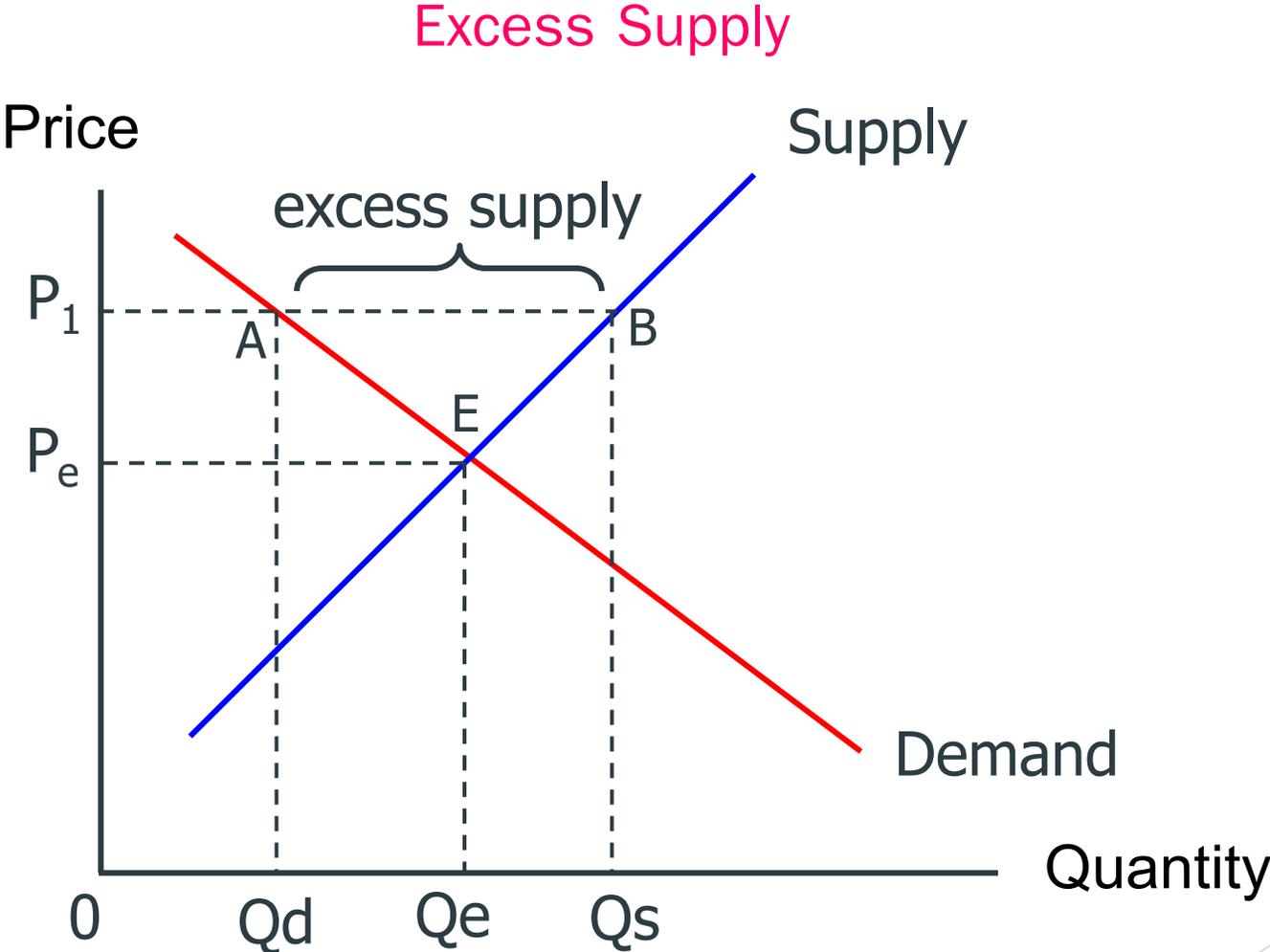
Excess Demand



# Excess Demand

- The quantity demanded is greater than the quantity supplied, resulting in excess demand.
- Some buyers are unable to obtain the product and therefore offer a higher price to encourage sellers to supply more goods.
- Excess demand will decrease when the price returns to the original equilibrium price.
- All buyers will then be able to purchase the product in the quantities they desire, so there is no need to raise the price further.
- As a result, the price remains at the equilibrium point.

# Adjustment toward Market Equilibrium



# Excess Supply

- When the quantity supplied is greater than the quantity demanded, **excess supply** occurs.
- Sellers are unable to sell all of their goods, so they **reduce prices** in order to encourage buyers to purchase more.
- Excess supply will **decrease as prices fall** and the market will move back toward the **equilibrium price**.
- Sellers will be able to sell goods in the desired quantities, and buyers will also be able to purchase goods in the quantities they want.
- As a result, the **price remains at the equilibrium level**.

# Price Mechanism

If the market price of a product is lower or higher than the equilibrium price

a surplus or a shortage of demand or supply will occur, which will push the price back toward the equilibrium point.

This adjustment occurs automatically,

and this process is called the price mechanism or market forces.