MANEGERIAL ECONOMICS

UNIT III

perfect market

- A **perfect market** is characterized by many buyers and sellers, homogeneous products, and free entry and exit, ensuring no single entity can influence the market price.

Imperfect market

- An **imperfect market** includes monopolies, oligopolies, and monopolistic competition, where firms have some control over pricing due to product differentiation or market barriers.

Market structures

- Different **market structures**—such as perfect competition, monopoly, monopolistic competition, and oligopoly—affect how prices and outputs are determined.

Firm’s equilibrium

- A **firm’s equilibrium** is achieved when its profit is maximized, where marginal cost equals marginal revenue.

Market efficiency

- **Market efficiency** refers to the optimal allocation of resources, achieved when supply equals demand without wastage or shortage.

Imperfect competition

- **Imperfect competition** often leads to economic inefficiencies, such as higher prices, restricted output, and reduced consumer surplus.

Factor market

- In the **factor market**, resources like land, labor, and capital are bought and sold, influencing production processes.

Demand and Supply

- The **demand and supply** of factors determine their equilibrium prices, such as wages for labor and rent for land.

Product and Factor markets

- The interaction of **product and factor markets** ensures the flow of resources and goods in an economy, promoting interconnectedness.

General equilibrium

- **General equilibrium** occurs when all markets in an economy simultaneously achieve equilibrium, ensuring maximum efficiency.

Cost concepts

- **Cost concepts** like variable cost, total cost, average cost, marginal cost, and incremental cost are essential for understanding production decisions. **Implicit costs** are opportunity costs, while **explicit costs** involve direct monetary expenses incurred by a firm. **Sunk costs** are irrecoverable past expenditures, whereas **replacement costs** represent the current cost of replacing an asset.
- **Historical cost** reflects the original cost of an asset, while **private costs** and **social costs** account for individual and societal expenses, respectively. The **cost-output relationship**, in both the short and long run, guides managerial decisions on production levels and cost efficiency, with cost functions being vital tools for forecasting and planning.