

Price Determination

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Why study
pricing?

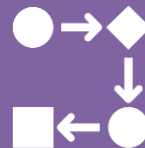
From a
common
man's
perspective



Price – the most
rational signal that
determines the value
of a commodity.



Learning about pricing
makes one a more
empowered citizen.



Enables decision-
making about what to
spend on.

Why
study
pricing?

As a civil
servant



Framing the right set of regulations (MSP, electricity, cross-subsidy).



Setting fines and taxes (GST rates on luxuries vs on essentials).



Balancing different interests (industry vs agriculture vs social justice).



Pricing public goods.



The prediction of consumers' responses to price changes (pricing in railways).

Market Structures

Perfect Competition

- Large number of sellers.
- Identical product.
- Easy entry/exit.

- Cabbages/Carrots.

Monopolistic Competition

- Large number of sellers.
- Differentiated products.
- Easy entry/exit.

- Restaurants/
Builders.

Oligopoly

- Small number of sellers.
- Identical or differentiated products.
- Easy entry/exit.

- Cement/Cars.

Monopoly

- Single seller.
- Unique product.
- Impossible entry/exit.

- Railways.

Perfect Competition



Simplest market structure



Large number of firms all producing the same product



Free entry and exit



Homogenous products



Examples – local farmers' market

Price Determination under Perfect Competition



Price determined by market demand and supply



Each seller a price-taker



Individual seller cannot influence prices



<https://study.com/academy/lesson/perfect-competition-definition-characteristics-examples.html>

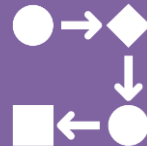
Monopolistic Competition



Large number of
sellers



Differentiated
products



Easy entry/exit

Price
Determination
under
Monopolistic
Competition



Brand value is
important



So, some control over
prices



Examples – clothing
brands, smart
phones, hotels and
pubs, burgers

Oligopoly



Competition among a few (2-10)



Selling similar products



Barriers to entry of firms



Interdependence of firms in decision-making – production and pricing



Advertising to attract customers



Firms have some control over pricing

Price Determination under Oligopoly



Price Leadership: Airlines – when one airline charges prices for check-in baggage, the rest follow suit



Kinked demand curve, sticky prices – Reliance Jio entry into the market; Petrol Pumps next to each other

Price Wars: Case of Amazon- Flipkart (Walmart)



Engage in price-wars



Each trying to undercut the other via greater discounts to get a larger market share



Case where the market by definition is not competitive, but an oligopoly



But still we have competitive prices



Bertrand Price Competition

Case Study: Pricing by Uber



How does Uber set its taxi fares?



**[https://www.youtube.com/watch?
v=NCZ-vBC_a3E](https://www.youtube.com/watch?v=NCZ-vBC_a3E)**

Monopoly



Full control over pricing and supply



Single seller



Strong barriers to entry



De Beers diamond company uses its dominant position to manipulate the international diamond market.



OPEC cartel

Cartel



A group of producers that work together to protect their interests



<https://www.youtube.com/watch?v=WWJaLVKIIhM>