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Victoria University of Bangladesh

Final Examination

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Ans to the Q. No - 1 (a)

A market strucure is an economic environment where a business operates. The market structure can describe how competitive the industry is by considering factors like how challenging it is to enter the industry and how many sellers participate. It also considers relationships between companies and customers to show how prices fluctuate.

4 types of market structures -

Here are the four main types of market structure :

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01. perfect competition —

A perfect competition market structure contains many companies. While economists don't exactly define how many companies this requires, it's enough so that each company has little influence over the market. There's a lot of competition within this market structure because it has few barriers to entry. Companies can easily join the industry because of low startup costs and the wide availability of resources.

In this market, all companies sell the same product at about the same price, with

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price fluctuations being very rare. A company can try to raise its price, but it's unlikely for a customer to buy it because they can buy the same product from a competitor at a lower price.

If a company tries to lower its price to appeal to customers, it may not make sufficient profits. Note that it's rare to see this market structure because most industries have more barriers to entry or product variations that allow companies to control prices.

02. Monopolistic competition —

A monopolistic competition market structure features many

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sellers, meaning that it's easy to enter the industry. Combining aspects of a monopoly and competitive market, companies within a monopolistic structure can sell products that are similar but feature slight differences. This allows them to have a small amount of market power based on how they differentiate products.

For instance, a company might notice users will pay a little more for a product with a few unique features. To meet demand and increase profits, the company raises the price of this unique product. If the price goes too high or consumers decide they want a

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cheaper product, they look for a substitute. The monopolistic competition allows them to find a suitable alternative for a lower price.

03. Oligopoly ←

An oligopolistic market structure contains a few large sellers that sell to many consumers. It's challenging to enter the industry because of factors like high startup costs and patents, but an oligopoly is easier to enter than a monopoly.

Companies may sell identical products like in perfect competition or differentiated products like in monopolistic competition. The key difference

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is that each company has enough market power for its actions to affect its competitors. For instance, when one company lowers its prices, companies that want to stay competitive may also lower their prices.

The companies within an oligopoly collaborate because they recognize that working together is more beneficial than competing against each other. For example, companies may try to lower their prices to appeal to consumers, but lowering them too much can affect their profits.

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04. Monopoly —

In a monopolistic market structure, there's only one company that serves a large market. The lack of competition is often because of entry barriers like high startup costs, limited resouces and patents.

A single company sells a product that's unique and unavailable anywhere else, meaning consumers have to purchase from the company if they want that product. If the company sets a price that consumers pay, it has a lot of control over the market place.

In many cases, monopolies

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are illegal because they can allow a company to take advantage of customers by charging more as the only product provider. Governments may encourage monopolies within certain industries, though.

For example, they might allow a single company to dominate an industry if it operates in a way that benefits society. To regulate monopolies, a government often uses antitrust laws that prevent unethical practices like market allocation and price fixing.

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Ans to the Q. NO - 1(b)

In Bangladesh, several factors can cause the labor demand and supply curves to shift. Here are some key factors that can influence the shifts in these curve:

Factors affecting the labor demand curve:

01. Economic growth: when the overall economy is expanding, businesses experience increased demand for their goods and services. To meet this demand, firms may require additional workers, leading to a rightward shift in the labor demand curve. Factors that contribute to economic growth include increased

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consumer spending, investment, government spending and exports.

02. Technological advancements:

The adoption of new technologies can have a significant impact on labor demand. In Bangladesh, industries such as textiles, garments, and information technology have experienced technological advancements that have increased labor productivity. With increased productivity, businesses may require fewer workers, resulting in a leftward shift in the labor demand curve for low-skilled jobs. However, technological advancements can also create new industries and job opportunities, leading to an

increased demand for skilled labor.

03. Changes in industry structure :

Structural changes in the economy can affect the demand for labor. For example, the expansion of the manufacturing or services sector can create additional employment opportunities, shifting the labor demand curve to the right. On the other hand, the decline of certain industries, such as agriculture, due to automation or changing consumer preferences, can reduce labor demand in those sectors.

04. Government policies : Government policies can influence labor demand through various measures. For instance,

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policies that promote investment, reduce taxes, or provide incentives to businesses can stimulate economic growth and increase job opportunities, resulting in a rightward shift in the labor demand curve. Additionally, infrastructure development initiatives, such as building roads or industrial zones, can attract investment and create new employment opportunities.

* Factors affecting the labor supply curve :

01. <u>population growth</u> : The growth rate and composition of the population can affect the labor supply. In Bangladesh, where the population

has been growing rapidly, the working-age population has also expanded. This can increase the number of individuals available for work, resulting in a rightward shift in the labor supply curve.

02. Education and training:

Improvements in education and training systems can enhance the skills and qualifications of the workforce, increasing the supply of skilled labor. Efforts to improve primary, secondary and tertiary education, as well as vocational training programs, can equip workers with the necessary skills for specific

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industries or occupations. This can lead to a rightward shift in the labor supply curve for skilled workers.

03. Migration: Migration patterns can impact the labor supply in specific areas or sectors. For example, rural-to-urban migration can increase the supply of labor in urban areas, potentially leading to a rightward shift in the labor supply curve. Similarly, international migration can affect labor supply dynamics if significant numbers of workers emigrate or return ~~of~~ to Bangladesh.

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04. Labor market policies: Government policies related to labor market regulations, minimum wage laws, or social welfare programs can influence the labor supply curve. These policies can impact the incentives for individuals to participate in the labor market.

It's important to note that these factors can interact with each other and have both short-term and long-term effects on the labor market in Bangladesh.

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Ans to the Q. NO - 2(a)

Consumer surplus —

A consumer surplus happens when the price that consumers pay for a product or service is less than the price they're willing to pay. It's a measure of the additional benefit that consumers service and receive because they are paying less for something than what they were willing to pay.

The concept of consumer surplus was developed in 1844 to measure the social benefits of public goods such as national highways, canals and bridges. It has been an important tool in the

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field of welfare economics and the formulation of tax policies by governments.

Consumer surplus is based on the economic theory of marginal utility, which is the additional satisfaction a consumer gains from one more unit of a good or service. The utility a good or service provides varies from individual to individual based on their personal preference.

Typically, the more of a good or service that consumers have, the less they're willing go spend for more of it, due to the diminishing marginal

utility or additional benefit they receive. A consumer surplus occurs when the consumer is willing to pay more for a given product than the current market price.

Consumer surplus is the benefit or good feeling of getting a good deal. For example, let's say that you bought an airline ticket for a flight to Disney world during school vacation week for $100, but you were expecting and willing to pay $300 for one ticket. The $200 represents your consumer surplus.

Total social surplus is composed of consumer surplus and producer surplus. It is a measure of consumer satisfaction in terms of utility.

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Graphically, it can be determined as the area below the demand curve (which represents the consumer's willingness to pay for a good at different prices) and above the price line. It reflects the benefit gained from the transaction based on the value the consumer places on the good. It is positive when what the consumer is willing to pay for the commodity is greater than the actual price.

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Ans to the Q. No - 2(b)

Oligopoly —

An oligopoly is a market structure with a small number of firms, none of which can keep the others from having significant influence. The concentration ratio measures the market share of the largest firms.

A monopoly is a market with only one producer, a duopoly has two firms, and an oligopoly consists of two or more firms. There is no precise upper limit to the number of firms in an oligopoly, but the number of firms in an oligopoly, number must be low enough that the actions of one firm significantly

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influence the others.

An oligopoly market situation is also called 'competition among the few." An oligopoly is an industry which is dominated by a few firms. In this market, there are a few firms which sell homogeneous or differentiated products. Also, as there are few sellers in the market, every seller influences the behavior of the other firms and other firms influence it.

Characteristics of oligopoly —

i. Few firms

ii. Barriers of Entry

iii. Non - price competition

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iv. Interdependence

v. Nature of the product

vi. Selling costs

vii. No unique pattern of pricing behavior

viii. Indeterminateness of the Demand Curve.

Oligopolies occur in almost every country. The most recognised examples of oligopoly include the supermarket industry in the UK, the wireless communications industry in the US and the banking industry in France.

Advantages of oligopoly —

Both producers and consumers can benefit from the oligopolistic

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market structure. The most important advantages of oligopoly include:

- Firms can gain extreme profits due to little to no competition in an oligopoly market structure, allowing them to charge higher prices and expand their margins.

- Increased profits allow firms to invest more money into research and development, which benefits consumers through the development of new and innovative products.

- consumers benefit from having firms constantly trying to offer better products.

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Ans to the Q. NO - 2 (c)

Economic profit vs. Accounting profit –

profit is one of the most widely watched financial metrics in evaluating the financial health of a company. It is the financial gain or revenue generated from any business or investment activity in excess of any expenses, taxes, and any other costs.

Economic profit –

Economic profit is a form of profit that is derived from producing goods and services while factoring in the alternative uses

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of a company's resources. It deducts explicit costs from revenue and includes the opportunity costs incurred during that period of time. Implicit costs, which are typically the costs of a company's resources, are also part of the equation. We can calculate economic profit as long as we know the total amount of revenue earned and the total cost involved using the following formula:

Economic profit = Total Revenue − (Total Explicit costs + Total Implicit costs)

For example, the implicit costs

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could be the market price a company could sell a natural resource for versus using that resource. A paper company owns a forest of trees. They cut down trees and create paper products. Their implicit costs are the timber, which they could sell for market prices.

Accounting profit –

Accounting profit is also known as a company's earned profit, net income or bottom line. Unlike economic profit, accounting profit is reported on a company's income statement. It's the profit earned after various costs and expenses

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are subtracted from total revenue or total sales, as stipulated by generally accepted accounting principles (GAAP). Those costs include:

- labor costs, such as wages and salaries.
- Any Inventory needed for production
- Raw materials
- Transportation and storage costs
- production costs and overhead
- Sales and marketing costs.

Accounting profit is the amount of money left over after deducting the explicit costs of running the business. Explicit

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costs are merely the specific amounts that a company pays for those costs in that period - for example, wages. Typically, accounting profit or net income is reported on a quarterly and annual basis and is used to measure the financial performance of a company.

Key Differences -

Economic profit is more of a theoretical calculation based on alternative actions that could have been taken.

Accounting profit, on the other hand, calculates what actually occurred and the measurable results for the period.

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Ans to the Q. No - 2(d)

Deadweight Loss —

In economics, deadweight loss is defined as the inefficiency resulting from a divergence between the quantity of a product or service produced and the quantity consumed, including government taxation. This ineffciency signifies a loss that no one recovers, and thus, it's termed as a "deadweight".

A deadweight loss is also called efficiency loss. It is the result of the market's misallocation of resources so that they

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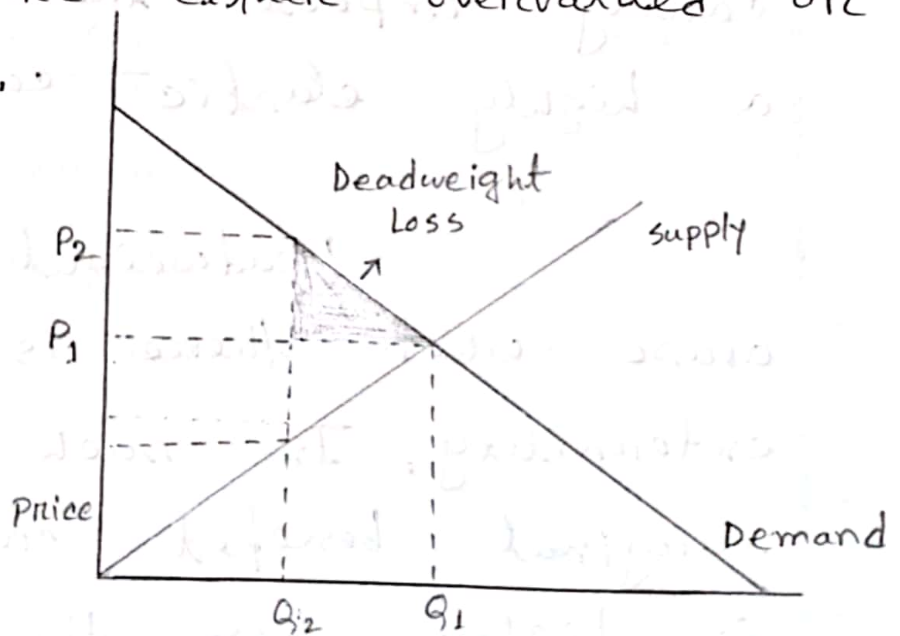
cannot satisfy society's needs in the best way. This is any situation where the supply and demand curves do not intersect at the equilibrium.

A deadweight loss is a market inefficiency caused by a mismatch between goods consumption and demand. Due to the inefficiency, products are either overvalued or undervalued.



In such scenarios, demand and supply are not driven by

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market forces. Instead, demand and supply are moved artificially - by factors like taxation, subsidies, product surplus, consumer surplus, monopoly, oligopoly, price ceiling and price floor. Highly elastic commodities are prone to such inefficiencies. price changes significantly impact the demand for a highly elastic cammodity.

Deadweight losses also arise when there is a positive externality. In such scenarios, the marginal benefit from a product is higher than the marginal social cost. Deadweight losses are not seen in an efficient market-

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where the market is run by fair competition.

causes of Deadweight Loss —

01. price ceiling
02. price Floor
03. Monopoly
04. Taxation
05. Subsidy
06. product surplus

For calculations, deadweight loss is half of the price change multiplied by the change in demand. It is computed using the following formula :

$$\text{Deadweight Loss} = \frac{1}{2} \times \Delta P \times \Delta Q$$

or,

$$\text{Deadweight Loss} = \frac{1}{2} \times (P2 - P1) \times (Q1 - Q2)$$

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Ans to the Q. No - 2(e)

Supply curve of the monopoly market -

A supply curve various amounts of goods offered for sale in the market at different prices of that goods. For every price, there is a certain definite amount of the goods offered for sale. In other words, there is a unique relationship between the price and the quantity offered for sale.

Under perfect competition, a profit maximizing firm equates marginal cost with price (MC = MR = AR). Thus, it is possible to know how

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much a firm will produce and supply at each price level. A firm's marginal cost curve, over the range in which it lies above the minimum point of the average variable cost is the supply curve of that firm in the short run. The supply curve of the whole industry is derived by summing up the supply curves of all the firms comprising that industry.

In a monopoly, however, there is no unique supply curve, there is no definite relationship between the price and the amount offered for sale. A monopoly firm equates

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marginal cost with marginal revenue, which is lower than the price hence, it is not possible to know how much a firm will produce at each level of price since price does not directly enter into output determination under monopoly. The amount of goods offeres for sale at a given price depends upon the nature, the shape or the elasticity of demand curve facing the monopolist. Thus, a monopolist may offer for sale the same amount of goods at two different prices depending upon the conditions of demand in the market. Or, for two different amounts of the same commodity. Hence, there

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is no unique relationship between price and supply under a monopoly and thus we do not have a supply curve for a monopoly firm which has any such relationship with its margical cost curve, as is the case with perfect competition.

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