UNIT – III

INTRODUCTION TO MARKETS AND NEW ECONOMIC ENVIRONMENT

Pricing

Introduction

Pricing is an important, if not the most important function of all enterprises. Since every enterprise is engaged in the production of some goods or/and service. Incurring some expenditure, it must set a price for the same to sell it in the market. It is only in extreme cases that the firm has no say in pricing its product; because there is severe or rather perfect competition in the market of the good happens to be of such public significance that its price is decided by the government. In an overwhelmingly large number of cases, the individual producer plays the role in pricing its product.

It is said that if a firm were good in setting its product price it would certainly flourish in the market. This is because the price is such a parameter that it exerts a direct influence on the products demand as well as on its supply, leading to firm's turnover (sales) and profit. Every manager endeavors to find the price, which would best meet with his firm's objective. If the price is set too high the seller may not find enough customers to buy his product. On the other hand, if the price is set too low the seller may not be able to recover his costs. There is a need for the right price further, since demand and supply conditions are variable over time what is a right price today may not be so tomorrow hence, pricing decision must be reviewed and reformulated from time to time.

Price

Price denotes the exchange value of a unit of good expressed in terms of money. Thus the current price of a maruti car around Rs. 2,00,000, the price of a hair cut is Rs. 25 the price of a economics book is Rs. 150 and so on. Nevertheless, if one gives a little, if one gives a little thought to this subject, one would realize that there is nothing like a unique price for any good. Instead, there are multiple prices.

Price concepts

Price of a well-defined product varies over the types of the buyers, place it is received, credit sale or cash sale, time taken between final production and sale, etc.

It should be obvious to the readers, that the price difference on account of the above four factors are more significant. The multiple prices is more serious in the case of items like cars refrigerators, coal, furniture and bricks and is of little significance for items like shaving blade, soaps, tooth pastes, creams and stationeries. Differences in various prices of any good are due to differences in transport cost, storage cost accessories, interest cost, intermediaries' profits etc. Once can still conceive of a basic price, which would be exclusive of all these items of cost and then rationalize other prices by adding the cost of special items attached to the particular transaction, in what follows we shall explain the determination of this basis price alone and thus resolve the problem of multiple prices.

Price determinants – Demand and supply

The price of a product is determined by the demand for and supply of that product. According to Marshall the role of these two determinants is like that of a pair of scissors in cutting cloth. It is possible that at times, while one pair is held fixed, the other is moving to cut the cloth. Similarly, it is conceivable that there could be situations under which either demand or supply is playing a passive role, and the other, which is active, alone appear to be determining the price. However, just as one pair of scissors alone can never cut a cloth, demand or supply alone is insufficient to determine the price.

Equilibrium Price

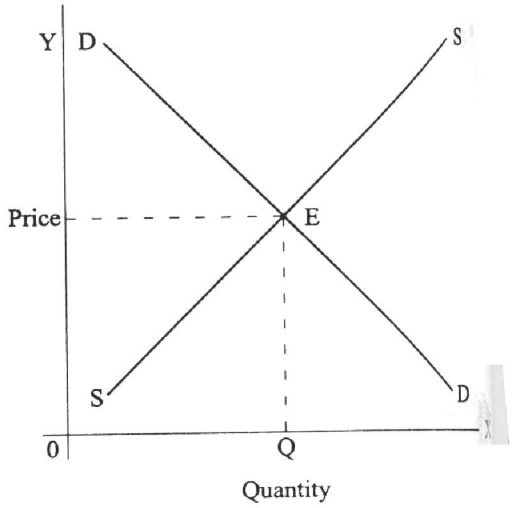
The price at which demand and supply of a commodity is equal known as equilibrium price. The demand and supply schedules of a good are shown in the table below.

Demand supply schedule

Price	Demand	Supply
50	100	200
40	120	180
30	150	150
20	200	110
10	300	50

Of the five possible prices in the above example, price Rs.30 would be the market-clearing price. No other price could prevail in the market. If price is Rs. 50 supply would exceed demand and consequently the producers of this good would not find enough customers for their demand, thereby they would accumulate unwanted inventories of output, which, in turn, would lead to competition among the producers, forcing price to

Rs.30. Similarly if price were Rs.10, there would be excess demand, which would give rise to competition among the buyers of good, forcing price to Rs.30. At price Rs.30, demand equals supply and thus both producers and consumers are satisfied. The economist calls such a price as equilibrium price.



It was seen in unit 1 that the demand for a good depends on, a number of factors and thus, every factor, which influences either demand or supply is in fact a determinant of price. Accordingly, a change in demand or/and supply causes price change.

MARKET

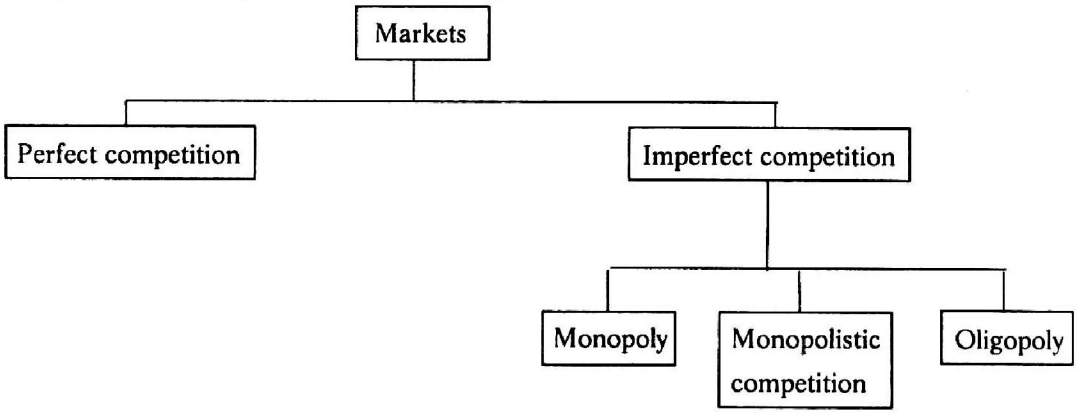
Market is a place where buyer and seller meet, goods and services are offered for the sale and transfer of ownership occurs. A market may be also defined as the demand made by a certain group of potential buyers for a good or service. The former one is a narrow concept and later one, a broader concept. Economists describe a market as a collection of buyers and sellers who transact over a particular product or product class (the housing market, the clothing market, the grain market etc.). For business purpose we define a market as people or organizations with wants (needs) to satisfy, money to spend, and the willingness to spend it. Broadly, market represents the structure and nature of buyers and sellers for a commodity/service and the process by which the price of the commodity or service is established. In this sense, we are referring to the structure of competition and the process of price determination for a commodity or service. The determination of price for a commodity or service depends upon the structure of the market for that commodity or service (i.e., competitive structure of the

market). Hence the understanding on the market structure and the nature of competition are a pre-requisite in price determination.

Different Market Structures

Market structure describes the competitive environment in the market for any good or service. A market consists of all firms and individuals who are willing and able to buy or sell a particular product. This includes firms and individuals currently engaged in buying and selling a particular product, as well as potential entrants.

The determination of price is affected by the competitive structure of the market. This is because the firm operates in a market and not in isolation. In marking decisions concerning economic variables it is affected, as are all institutions in society by its environment.



Perfect Competition

Perfect competition refers to a market structure where competition among the sellers and buyers prevails in its most perfect form. In a perfectly competitive market, a single market price prevails for the commodity, which is determined by the forces of total demand and total supply in the market.

Characteristics of Perfect Competition

The following features characterize a perfectly competitive market:

1. **A large number of buyers and sellers:** The number of buyers and sellers is large and the share of each one of them in the market is so small that none has any influence on the market price.

2. **Homogeneous product:** The product of each seller is totally undifferentiated from those of the others.
3. **Free entry and exit**: Any buyer and seller is free to enter or leave the market of the commodity.
4. **Perfect knowledge**: All buyers and sellers have perfect knowledge about the market for the commodity.
5. **Indifference:** No buyer has a preference to buy from a particular seller and no seller to sell to a particular buyer.
6. **Non-existence of transport costs**: Perfectly competitive market also assumes the non-existence of transport costs.
7. **Perfect mobility of factors of production**: Factors of production must be in a position to move freely into or out of industry and from one firm to the other.

Under such a market no single buyer or seller plays a significant role in price determination. One the other hand all of them jointly determine the price. The price is determined in the industry, which is composed of all the buyers and seller for the commodity. The demand curve facing the industry is the sum of all consumers' demands at various prices. The industry supply curve is the sum of all sellers' supplies at various prices.

Pure competition and perfect competition

The term perfect competition is used in a wider sense. Pure competition has only limited assumptions. When the assumptions, that large number of buyers and sellers, homogeneous products, free entry and exit are satisfied, there exists pure competition. Competition becomes perfect only when all the assumptions (features) are satisfied. Generally pure competition can be seen in agricultural products.

Equilibrium of a firm and industry under perfect competition

Equilibrium is a position where the firm has no incentive either to expand or contrast its output. The firm is said to be in equilibrium when it earn maximum profit. There are two conditions for attaining equilibrium by a firm. They are:

Marginal cost is an additional cost incurred by a firm for producing and additional unit of output. Marginal revenue is the additional revenue accrued to a firm when it sells one additional unit of output. A firm increases its output so long as its marginal cost becomes equal to marginal revenue. When marginal cost is more than marginal revenue, the firm reduces output as its costs exceed the revenue. It is only at the point where marginal cost is equal to marginal revenue, and then the firm attains

equilibrium. Secondly, the marginal cost curve must cut the marginal revenue curve from below. If marginal cost curve cuts the marginal revenue curve from above, the firm is having the scope to increase its output as the marginal cost curve slopes downwards. It is only with the upward sloping marginal cost curve, there the firm attains equilibrium. The reason is that the marginal cost curve when rising cuts the marginal revenue curve from below.

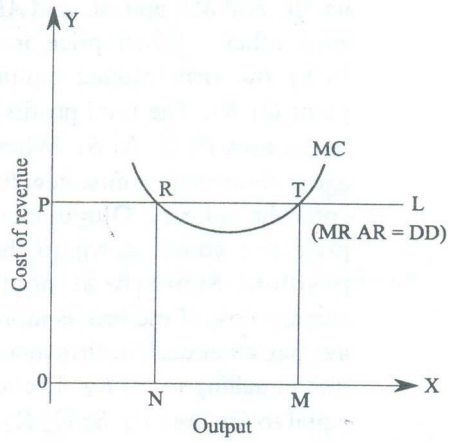


Fig. 6.2

The equilibrium of a perfectly competitive firm may be explained with the help of the fig. 6.2.

In the given fig. PL and MC represent the Price line and Marginal cost curve. PL also represents Marginal revenue, Average revenue and demand. As Marginal revenue, Average revenue and demand are the same in perfect competition, all are equal to the price line. Marginal cost curve is U- shaped curve cutting MR curve at R and T. At point R marginal cost becomes equal to marginal revenue. But MC curve cuts the MR curve fro above. So this is not the equilibrium position. The downward sloping marginal cost curve indicates that the firm can reduce its cost of production by increasing output. As the firm expands its output, it will reach equilibrium at point T. At this point, on price line PL; the two conditions of equilibrium are satisfied. Here the marginal cost and marginal revenue of the firm remain equal. The firm is producing maximum output and is in equilibrium at this stage. If the firm continues its output beyond this stage, its marginal cost exceeds marginal revenue resulting in losses. As the firm has no idea of expanding or contracting its size of out, the firm is said to be in equilibrium at point T.

Pricing under perfect competition

The price or value of a commodity under perfect competition is determined by the demand for and the supply of that commodity.

Under perfect competition there is large number of sellers trading in a homogeneous product. Each firm supplies only very small portion of the market demand. No single buyer or seller is powerful enough to influence the price. The demand of all consumers and the supply of all firms together determine the price. The individual seller is only a price taker and not a price maker. An individual firm has no price policy of it's own. Thus, the main problem of a firm in a perfectly competitive market is not to determine the price of its product but to adjust its output to the given price, So that the profit is maximum. Marshall however gives great importance to the time element for the determination of price. He divided the time periods on the basis of supply and ignored the forces of demand. He classified the time into four periods to determine the price as follows.

1. Very short period or Market period
2. Short period
3. Long period
4. Very long period or secular period

Very short period: It is the period in which the supply is more or less fixed because the time available to the firm to adjust the supply of the commodity to its changed demand is extremely short; say a single day or a few days. The price determined in this period is known as Market Price.

Short Period: In this period, the time available to firms to adjust the supply of the commodity to its changed demand is, of course, greater than that in the market period. In this period altering the variable factors like raw materials, labour, etc can change supply. During this period new firms cannot enter into the industry.

Long period: In this period, a sufficiently long time is available to the firms to adjust the supply of the commodity fully to the changed demand. In this period not only variable factors of production but also fixed factors of production can be changed. In this period new firms can also enter the industry. The price determined in this period is known as long run normal price.

Secular Period: In this period, a very long time is available to adjust the supply fully to change in demand. This is very long period consisting of a number of decades. As the period is very long it is difficult to lay down principles determining the price.

Price Determination in the market period

The price determined in very short period is known as Market price. Market price is determined by the equilibrium between demand and supply in a market period. The nature of the commodity determines the nature of supply curve in a market period. Under this period goods are classified in to (a) Perishable goods and (b) Non-perishable goods.

Perishable Goods: In the very short period, the supply of perishable goods like fish, milk vegetables etc. cannot be increased. And it cannot be decreased also. As a result the supply curve under very short period will be parallel to the Y-axis or Vertical to X-axis. Supply is perfectly inelastic. The price determination of perishable goods in very short period may be shown with the help of the following fig. 6.5

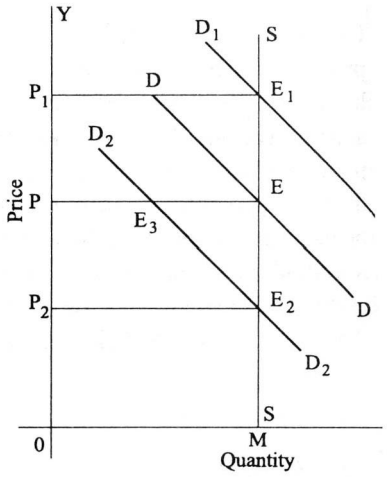


Fig. 6.5

In this figure quantity is represented along X-axis and price is represented along Y-axis. MS is the very short period supply curve of perishable goods. DD is demand curve. It intersects supply curve at E. The price is OP. The quantity exchanged is OM. D1 D1 represents increased demand. This curve cuts the supply curve at E1. Even at the new equilibrium, supply is OM only. But price increases to OP1. So, when demand increases, the price will increase but not the supply. If demand decreases new demand curve will be D2 D2. This curve cuts the supply curve at E2. Even at this new equilibrium, the supply is OM only. But price falls to OP2. Hence in very short period, given the supply,

it is the change in demand that influences price. The price determined in a very short period is called Market Price.

Non-perishable goods: In the very short period, the supply of non-perishable goods like cloth, pen, watches etc. cannot be increased. But if price falls, preserving some stock can decrease their supply. If price falls too much, the whole stock will be held back from the market and carried over to the next market period. The price below, which the seller will refuse to sell, is called Reserve Price.

The Price determination of non-perishable goods in very short period may be shown with the help of the following fig 6.6.

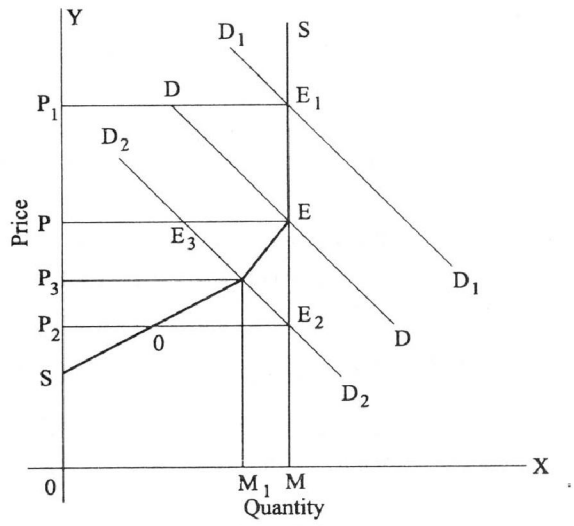


Fig. 6.6

In the given figure quantity is shown on X-axis and the price on Y-axis. SES is the supply curve. It slopes upward up to the point E. From E it becomes a vertical straight line. This is because the quantity existing with sellers is OM, the maximum amount they have is thus OM. Till OM quantity (i.e., point E) the supply curve sloped upward. At the point S, nothing is offered for sale.

It means that the seller with hold the entire stock if the price is OS. OS is thus the reserve price. As the price rises, supply increases up to point E. At OP price (Point E), the entire stock is offered for sale.

Suppose demand increases, the DD curve shift upward. It becomes D1D1 price raises to OP1. If demand decreases, the demand curve becomes D2D2. It intersects the

supply curve at E3. The price will fall to OP3. We find that at OS price, supply is zero. It is the reserve price.

Price Determination in the short period

Short period is a period in which supply can be increased by altering the variable factors. In this period fixed costs will remain constant. The supply is increased when price rises and vice versa. So the supply curve slopes upwards from left to right.

The price in short period may be explained with the help of a diagram.

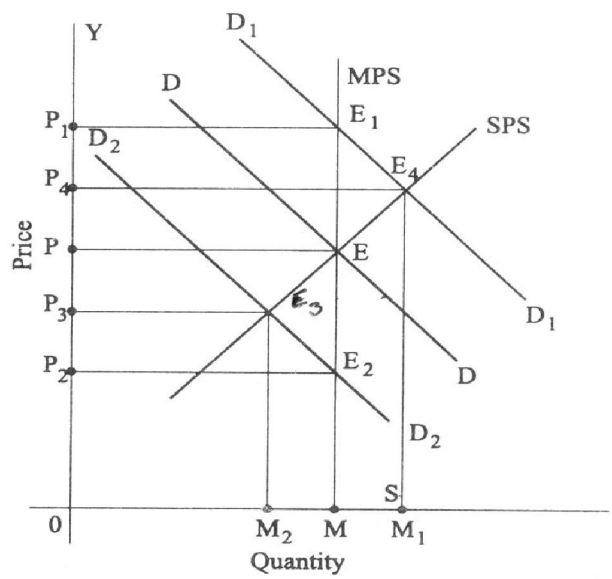


Fig. 6.7

In the given diagram MPS is the market period supply curve. DD is the initial demand curve. It intersects MPS curve at E. The price is OP and out put OM. Suppose demand increases, the demand curve shifts upwards and becomes D1D1. In the very short period, supply remains fixed on OM. The new demand curve D1D1 intersects MPS at E1. The price will rise to OP1. This is what happen in the very short-period.

As the price rises from OP to OP1, firms expand output. As firms can vary some factors but not all, the law of variable proportions operates. This results in new short-run supply curve SPS. It interests D1 D1 curve at E4. The price will fall from OP1 to OP4.

It the demand decreases, DD curve shifts downward and becomes D2D2. It interests MPS curve at E2. The price will fall to OP2. This is what happens in market period. In the short period, the supply curve is SPS. D2D2 curve interests SPS curve at E3. The short period price is higher than the market period price.

Price determination in the long period (Normal Price)

Market price may fluctuate due to a sudden change either on the supply side or on the demand side. A big arrival of milk may decrease the price of that production in the market period. Similarly, a sudden cold wave may raise the price of woolen garments. This type of temporary change in supply and demand may cause changes in market price. In the absence of such disturbing causes, the price tends to come back to a certain level. Marshall called this level is normal price level. In the words of Marshall Normal value (Price) of a commodity is that which economics force would tend to bring about in the long period.

In order to describe how long run normal price is determined, it is useful to refer to the market period as short period also. The market period is so short that no adjustment in the output can be made. Here cost of production has no influence on price. A short period is sufficient only to allow the firms to make only limited output adjustment. In the long period, supply conditions are fully sufficient to meet the changes in demand. In the long period, all factors are alterable and the new firms may enter into or old firms leave the; industry.

In the long period all costs are variable costs. So supply will be increased only when price is equal to average cost.

Hence, in long period normal price will be equal to minimum average cost of the industry. Will this price be more or less than the short period normal price? The answer depends on the stage of returns to which the industry is subject. There are three stages of return on the stage of returns to which the industry is subject. There are three stages of returns.

1. Increasing returns or decreasing costs.
2. Constant Returns or Constant costs.
3. Diminishing returns or increasing costs.

1. <u>Determination of long period normal price in decreasing cost industry:</u>

At this stage, average cost falls due to an increase in the output. So, the supply curve at this stage will slope downwards from left to right. The long period Normal price determination at this stage can be explained with the help of a diagram.

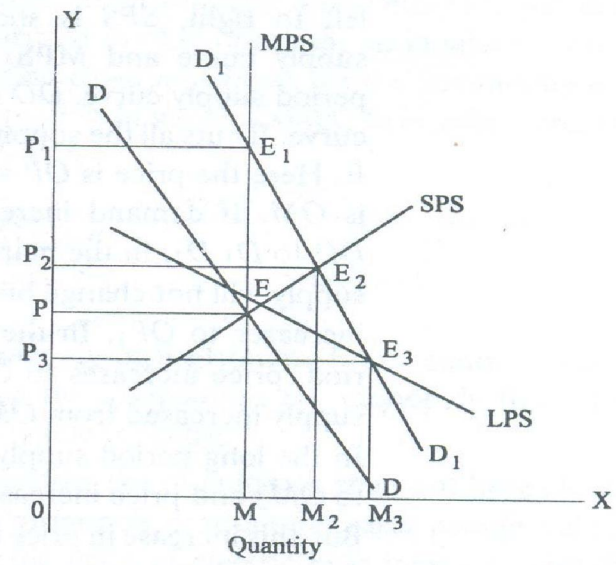


Fig. 6.8

In the diagram, MPS represents market period supply curve. DD is demand curve. DD cuts LPS, SPS and MPS at point E. At point E the supply is OM and the price is OP. If demand increases from DD to D1D1 market price increases to OP1. In the short period it is OP2. In the long period supply increases considerably to OM3. So price has fallen to OP3, which is less than the price of market period.

2. Determination of Long Period Normal Price in Constant Cost Industry:

In this case average cost does not change even though the output increases. Hence long period supply curve is horizontal to X-axis. The determination of long period normal price can be explained with the help of the diagram. In the fig. 6.9, LPS is horizontal to X-axis. MPS represents market period supply curve, and SPS represents short period supply curve. At point 'E' the output is OM and price is OP. If demand increases from DD to D1D1 market price increases to OP1. In the short period, supply increases and hence the price will be OP2. In the long run supply is adjusted fully to meet increased demand. The price

remains constant at OP because costs are constant at OP and market is perfect market.

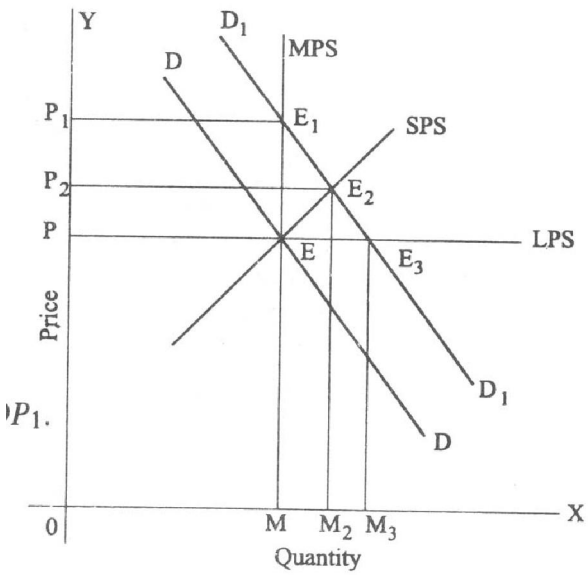


Fig. 6.9

3. Determination of long period normal price in increase cost industry:

If the industry is subject to increasing costs (diminishing returns) the supply curve slopes upwards from left to right like an ordinary supply curve. The determination of long period normal price in increasing cost industry can be explained with the help of the following diagram. In the diagram LPS represents long period supply curve. The industry is subject to diminishing return or increasing costs. So, LPS slopes upwards from left to right. SPS is short period supply curve and MPS is market period supply curve. DD is demand curve. It cuts all the supply curves at E. Here the price is OP and output is OM. If demand increases from DD to D1D1 in the market period, supply will not change but the price increases to OP1. In the short period, price increase but the price increases to OP1. In the short period, price increases to OP2 as the supply increased from OM to OM2. In the long period supply increases to OM3 and price increases to OP3. But this increase in price is less than the price increase in a market period or short period.

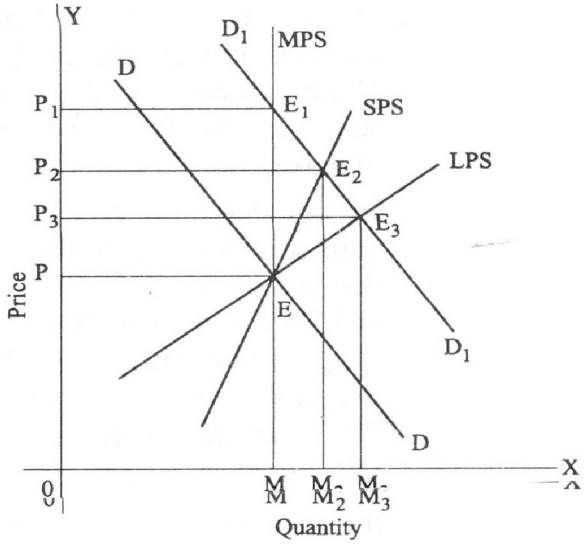


Fig. 6.10

Monopoly

The word monopoly is made up of two syllables, Mono and poly. Mono means single while poly implies selling. Thus monopoly is a form of market organization in which there is only one seller of the commodity. There are no close substitutes for the commodity sold by the seller. Pure monopoly is a market situation in which a single firm sells a product for which there is no good substitute.

Features of monopoly

The following are the features of monopoly.

1. **Single person or a firm:** A single person or a firm controls the total supply of the commodity. There will be no competition for monopoly firm. The monopolist firm is the only firm in the whole industry.
2. **No close substitute:** The goods sold by the monopolist shall not have closely competition substitutes. Even if price of monopoly product increase people will not go in far substitute. For example: If the price of electric bulb increase slightly, consumer will not go in for kerosene lamp.
3. **Large number of Buyers:** Under monopoly, there may be a large number of buyers in the market who compete among themselves.
4. **Price Maker:** Since the monopolist controls the whole supply of a commodity, he is a price-maker, and then he can alter the price.

5. **Supply and Price:** The monopolist can fix either the supply or the price. He cannot fix both. If he charges a very high price, he can sell a small amount. If he wants to sell more, he has to charge a low price. He cannot sell as much as he wishes for any price he pleases.
6. **Downward Sloping Demand Curve:** The demand curve (average revenue curve) of monopolist slopes downward from left to right. It means that he can sell more only by lowering price.

Types of Monopoly

Monopoly may be classified into various types. The different types of monopolies are explained below:

1. **Legal Monopoly:** If monopoly arises on account of legal support or as a matter of legal privilege, it is called Legal Monopoly. Ex. Patent rights, special brands, trade means, copyright etc.
2. **Voluntary Monopoly:** To get the advantages of monopoly some private firms come together voluntarily to control the supply of a commodity. These are called voluntary monopolies. Generally, these monopolies arise with industrial combinations. These voluntary monopolies are of three kinds (a) cartel (b) trust (c) holding company. It may be called artificial monopoly.
3. **Government Monopoly:** Sometimes the government will take the responsibility of supplying a commodity and avoid private interference. Ex. Water, electricity. These monopolies, created to satisfy social wants, are formed on social considerations. These are also called Social Monopolies.
4. **Private Monopoly:** If the total supply of a good is produced by a single private person or firm, it is called private monopoly. Hindustan Lever Ltd. Is having the monopoly power to produce Lux Soap.
5. **Limited Monopoly:** if the monopolist is having limited power in fixing the price of his product, it is called as 'Limited Monopoly'. It may be due to the fear of distant substitutes or government intervention or the entry of rivals firms.
6. **Unlimited Monopoly:** If the monopolist is having unlimited power in fixing the price of his good or service, it is called unlimited monopoly. Ex. A doctor in a village.
7. **Single Price Monopoly:** When the monopolist charges same price for all units of his product, it is called single price monopoly. Ex. Tata Company charges the same price to all the Tata Indiaca Cars of the same model.
8. **Discriminating Monopoly:** When a Monopolist charges different prices to different consumers for the same product, it is called discriminating monopoly. A

doctor may take Rs.20 from a rich man and only Rs.2 from a poor man for the same treatment.

9. **Natural Monopoly:** Sometimes monopoly may arise due to scarcity of natural resources. Nature provides raw materials only in some places. The owner of the place will become monopolist. For Ex. Diamond mine in South Africa.

PRICE DISCRIMINATION

When a firm sells its product to its customers of different profile at different prices with no corresponding in cost, price discrimination is also called as differential pricing. Customers may differ in their profile in terms of other education, knowledge about the prevailing prices, quality of the competitive products income groups' quality of life by changing different prices to different customer the firm tires to increase its profit by reducing the surplus

Through price discrimination they can take advantages of a situation where in some customers may be prepared to pay more.

1. **The Basis of price Discrimination**:- The following are the factors that determine the degree of price discrimination

2. **Purchasing power**:- The firm is likely to charge a high price from a customer who has the ability to pay a higher price. Urgency quality consciousness, high quality living and so forth are some of the factors that compel the rich customers to pay a high price.

3**. Quality bought**:-A customer buying large number of units is relatively charged a lower rate per unit.

4. **Customer from different market conditions**:- If the goods are brought for further processing or resale, the buyer maybe charged a lower price. If the goods are bought for ultimate consumption, the buyer may be charged relatively higher.

Pricing under Monopoly

Monopoly refers to a market situation where there is only one seller. He has complete control over the supply of a commodity. He is therefore in a position to fix any price. Under monopoly there is no distinction between a firm and an industry. This is because the entire industry consists of a single firm.

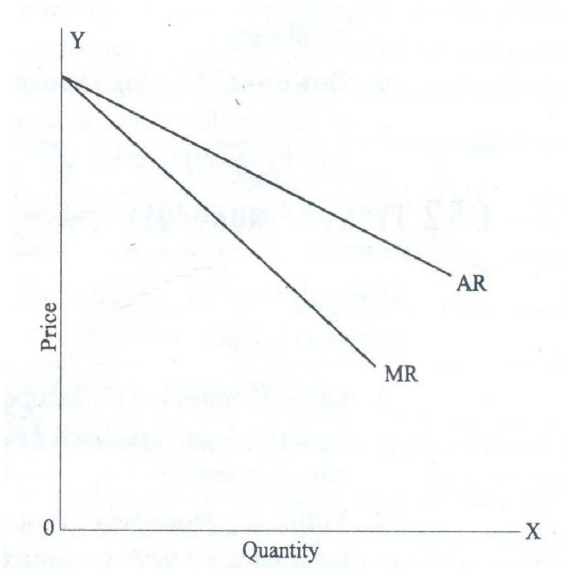


Fig. 6.11

Being the sole producer, the monopolist has complete control over the supply of the commodity. He has also the power to influence the market price. He can raise the price by reducing his output and lower the price by increasing his output. Thus he is a price-maker. He can fix the price to his maximum advantages. But he cannot fix both the supply and the price, simultaneously. He can do one thing at a time. If the fixes the price, his output will be determined by the market demand for his commodity. On the other hand, if he fixes the output to be sold, its market will determine the price for the commodity. Thus his decision to fix either the price or the output is determined by the market demand.

The market demand curve of the monopolist (the average revenue curve) is downward sloping. Its corresponding marginal revenue curve is also downward sloping. But the marginal revenue curve lies below the average revenue curve as shown in the figure. The monopolist faces the down-sloping demand curve because to sell more output, he must reduce the price of his product. The firm's demand curve and industry's demand curve are one and the same. The average cost and marginal cost curve are U shaped curve. Marginal cost falls and rises steeply when compared to average cost.

Price output determination (Equilibrium Point)

The monopolistic firm attains equilibrium when its marginal cost becomes equal to the marginal revenue. The monopolist always desires to make maximum profits. He makes maximum profits when MC=MR. He does not increasing his output if his revenue exceeds his costs. But when the costs exceed the revenue, the monopolist firm incur

loses. Hence the monopolist curtails his production. He produces up to that point where additional cost is equal to the additional revenue (MR=MC). Thus point is called equilibrium point. The price output determination under monopoly may be explained with the help of a diagram.

In the diagram 6.12 the quantity supplied or demanded is shown along X-axis. The cost or revenue is shown along Y-axis. AC and MC are the average cost and marginal cost curves respectively. AR and MR curves slope downwards from left to right. AC and MC and U shaped curves. The monopolistic firm attains equilibrium when its marginal cost is equal to marginal revenue (MC=MR). Under monopoly, the MC curve may cut the MR curve from below or from a side. In the diagram, the above condition is satisfied at point E. At point E, MC=MR. The firm is in equilibrium. The equilibrium output is OM.

The above diagram (Average revenue) = MQ or OP
Average cost = MR
Profit per unit = Average Revenue-Average cost=MQ-MR=QR
Total Profit = QRXSR=PQRS

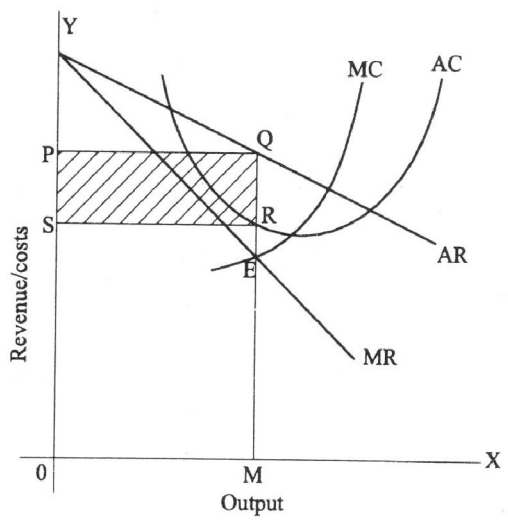


Fig. 6.12

The area PQRS resents the maximum profit earned by the monopoly firm.

But it is not always possible for a monopolist to earn super-normal profits. If the demand and cost situations are not favorable, the monopolist may realize short run losses.

Through the monopolist is a price marker, due to weak demand and high costs; he suffers a loss equal to PABC.

If AR > AC -> Abnormal or super normal profits.
If AR = AC -> Normal Profit
If AR < AC -> Loss

In the long run the firm has time to adjust his plant size or to use existing plant so as to maximize profits.

Monopolistic competition

Perfect competition and pure monopoly are rate phenomena in the real world. Instead, almost every market seems to exhibit characteristics of both perfect competition and monopoly. Hence in the real world it is the state of imperfect competition lying between these two extreme limits that work. Edward. H. Chamberlain developed the theory of monopolistic competition, which presents a more realistic picture of the actual market structure and the nature of competition.

Characteristics of Monopolistic Competition

The important characteristics of monopolistic competition are:

1. **Existence of Many firms:** Industry consists of a large number of sellers, each one of whom does not feel dependent upon others. Every firm acts independently without bothering about the reactions of its rivals. The size is so large that an individual firm has only a relatively small part in the total market, so that each firm has very limited control over the price of the product. As the number is relatively large it is difficult for these firms to determine its price-output policies without considering the possible reactions of the rival forms. A monopolistically competitive firm follows an independent price policy.

2. **Product Differentiation:** Product differentiation means that products are different in some ways, but not altogether so. The products are not identical but the same time they will not be entirely different from each other. IT really means that there are various monopolist firms competing with each other. An example of monopolistic competition and product differentiation is the toothpaste

produced by various firms. The product of each firm is different from that of its rivals in one or more respects. Different toothpastes like Colgate, Close-up, Forehans, Cibaca, etc., provide an example of monopolistic competition. These products are relatively close substitute for each other but not perfect substitutes. Consumers have definite preferences for the particular verities or brands of products offered for sale by various sellers. Advertisement, packing, trademarks, brand names etc. help differentiation of products even if they are physically identical.

3. **Large Number of Buyers:** There are large number buyers in the market. But the buyers have their own brand preferences. So the sellers are able to exercise a certain degree of monopoly over them. Each seller has to plan various incentive schemes to retain the customers who patronize his products.
4. **Free Entry and Exist of Firms:** As in the perfect competition, in the monopolistic competition too, there is freedom of entry and exit. That is, there is no barrier as found under monopoly.
5. **Selling costs:** Since the products are close substitute much effort is needed to retain the existing consumers and to create new demand. So each firm has to spend a lot on selling cost, which includes cost on advertising and other sale promotion activities.
6. **Imperfect Knowledge:** Imperfect knowledge about the product leads to monopolistic competition. If the buyers are fully aware of the quality of the product they cannot be influenced much by advertisement or other sales promotion techniques. But in the business world we can see that thought the quality of certain products is the same, effective advertisement and sales promotion techniques make certain brands monopolistic. For examples, effective dealer service backed by advertisement-helped popularization of some brands through the quality of almost all the cement available in the market remains the same.
7. **The Group:** Under perfect competition the term industry refers to all collection of firms producing a homogenous product. But under monopolistic competition the products of various firms are not identical through they are close substitutes. Prof. Chamberlin called the collection of firms producing close substitute products as a group.

Price – Output Determination under Monopolistic Competition

Since under monopolistic competition different firms produce different varieties of products, different prices for them will be determined in the market depending upon the

demand and cost conditions. Each firm will set the price and output of its own product. Here also the profit will be maximized when marginal revenue is equal to marginal cost.

Short-run equilibrium of the firm:

In the short-run the firm is in equilibrium when marginal Revenue = Marginal Cost. In Fig 6.15 AR is the average revenue curve. NMR marginal revenue curve, SMC short-run marginal cost curve, SAC short-run average cost curve, MR and SMC interest at point E where output in OM and price MQ (i.e. OP). Thus the equilibrium output or the maximum profit output is OM and the price MQ or OP. When the price (average revenue) is above average cost a firm will be making supernormal profit. From the figure it can be seen that AR is above AC in the equilibrium point. As AR is above AC, this firm is making abnormal profits in the short-run. The abnormal profit per unit is QR, i.e., the difference between AR and AC at equilibrium point and the total supernormal profit is OR X OM. This total abnormal profits is represented by the rectangle PQRS. As the demand curve here is highly elastic, the excess price over marginal cost is rather low. But in monopoly the demand curve is inelastic. So the gap between price and marginal cost will be rather large.

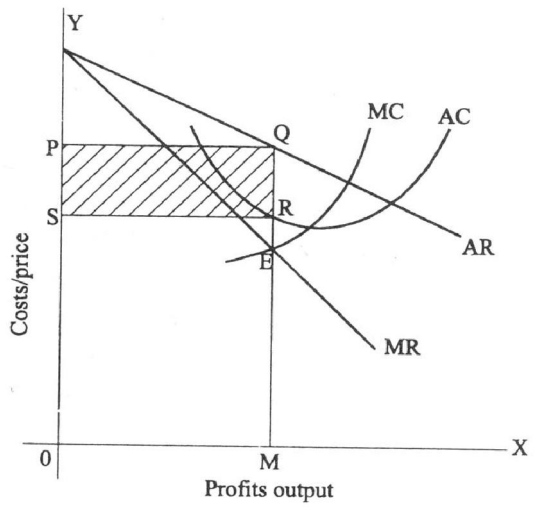


Fig. 6.15

If the demand and cost conditions are less favorable the monopolistically competitive firm may incur loss in the short-run fig 6.16 Illustrates this. A firm incurs loss when the price is less than the average cost of production. MQ is the average cost and OS (i.e. MR) is the price per unit at equilibrium output OM. QR is the loss per unit. The total loss at an output OM is OR X OM. The rectangle PQRS represents the total loses in the short run.

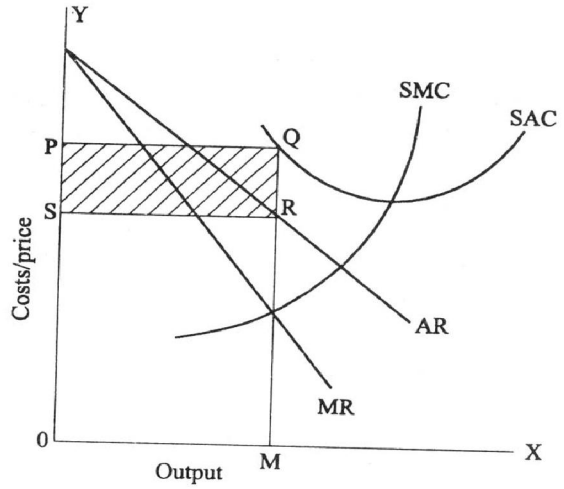


Fig. 6.16

Long – Run Equilibrium of the Firm:

A monopolistically competitive firm will be long – run equilibrium at the output level where marginal cost equal to marginal revenue. Monopolistically competitive firm in the long run attains equilibrium where MC=MR and AC=AR Fig 6.17 shows this trend.

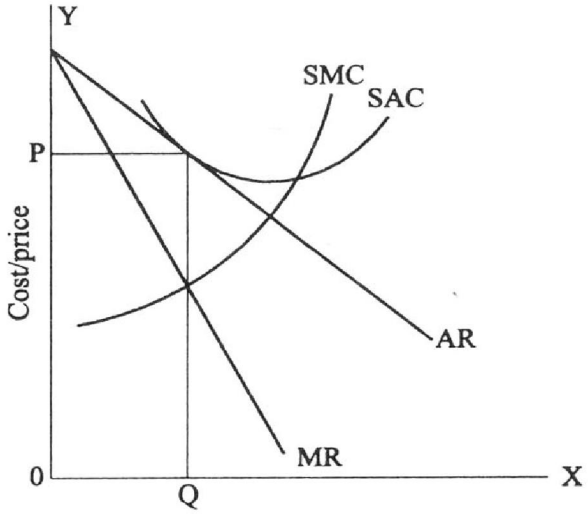


Fig. 6.17

Oligopoly

The term oligopoly is derived from two Greek words, 'oligos' meaning a few, and pollen meaning to sell. Oligopoly is the form of imperfect competition where there are a few firms in the market, producing either a homogeneous product or producing products, which are close but not perfect substitute of each other.

Characteristics of Oligopoly

The main features of oligopoly are:

1. **Few Firms:** There are only a few firms in the industry. Each firm contributes a sizeable share of the total market. Any decision taken by one firm influence the actions of other firms in the industry. The various firms in the industry compete with each other.
2. **Interdependence:** As there are only very few firms, any steps taken by one firm to increase sales, by reducing price or by changing product design or by increasing advertisement expenditure will naturally affect the sales of other firms in the industry. An immediate retaliatory action can be anticipated from the other firms in the industry every time when one firm takes such a decision. He has to take this into account when he takes decisions. So the decisions of all the firms in the industry are interdependent.
3. **Indeterminate Demand Curve:** The interdependence of the firms makes their demand curve indeterminate. When one firm reduces price other firms also will make a cut in their prices. So he firm cannot be certain about the demand for its product. Thus the demand curve facing an oligopolistic firm loses its definiteness and thus is indeterminate as it constantly changes due to the reactions of the rival firms.
4. **Advertising and selling costs:** Advertising plays a greater role in the oligopoly market when compared to other market systems. According to Prof. William J. Banumol "it is only oligopoly that advertising comes fully into its own". A huge expenditure on advertising and sales promotion techniques is needed both to retain the present market share and to increase it. So Banumol concludes "under oligopoly, advertising can become a life-and-death matter where a firm which fails to keep up with the advertising budget of its competitors may find its customers drifting off to rival products."
5. **Price Rigidity:** In the oligopoly market price remain rigid. If one firm reduced price it is with the intention of attracting the customers of other firms in the industry. In order to retain their consumers they will also reduce price. Thus the pricing decision of one firm results in a loss to all the firms in the industry. If one

firm increases price. Other firms will remain silent there by allowing that firm to lost its customers. Hence, no firm will be ready to change the prevailing price. It causes price rigidity in the oligopoly market.

OTHER MARKET STRUCTURES

Duopoly

Duopoly refers to a market situation in which there are only two sellers. As there are only two sellers any decision taken by one seller will have reaction from the other Eg. Coca-Cola and Pepsi. Usually these two sellers may agree to co-operate each other and share the market equally between them, So that they can avoid harmful competition.

The duopoly price, in the long run, may be a monopoly price or competitive price, or it may settle at any level between the monopoly price and competitive price. In the short period, duopoly price may even fall below the level competitive price with the both the firms earning less than even the normal price.

Monopsony

Mrs. Joan Robinson was the first writer to use the term monopsony to refer to market, which there is a single buyer. Monoposony is a single buyer or a purchasing agency, which buys the show, or nearly whole of a commodity or service produced. It may be created when all consumers of a commodity are organized together and/or when only one consumer requires that commodity which no one else requires.

Bilateral Monopoly

A bilateral monopoly is a market situation in which a single seller (Monopoly) faces a single buyer (Monoposony). It is a market of monopoly-monoposy.

Oligopsony

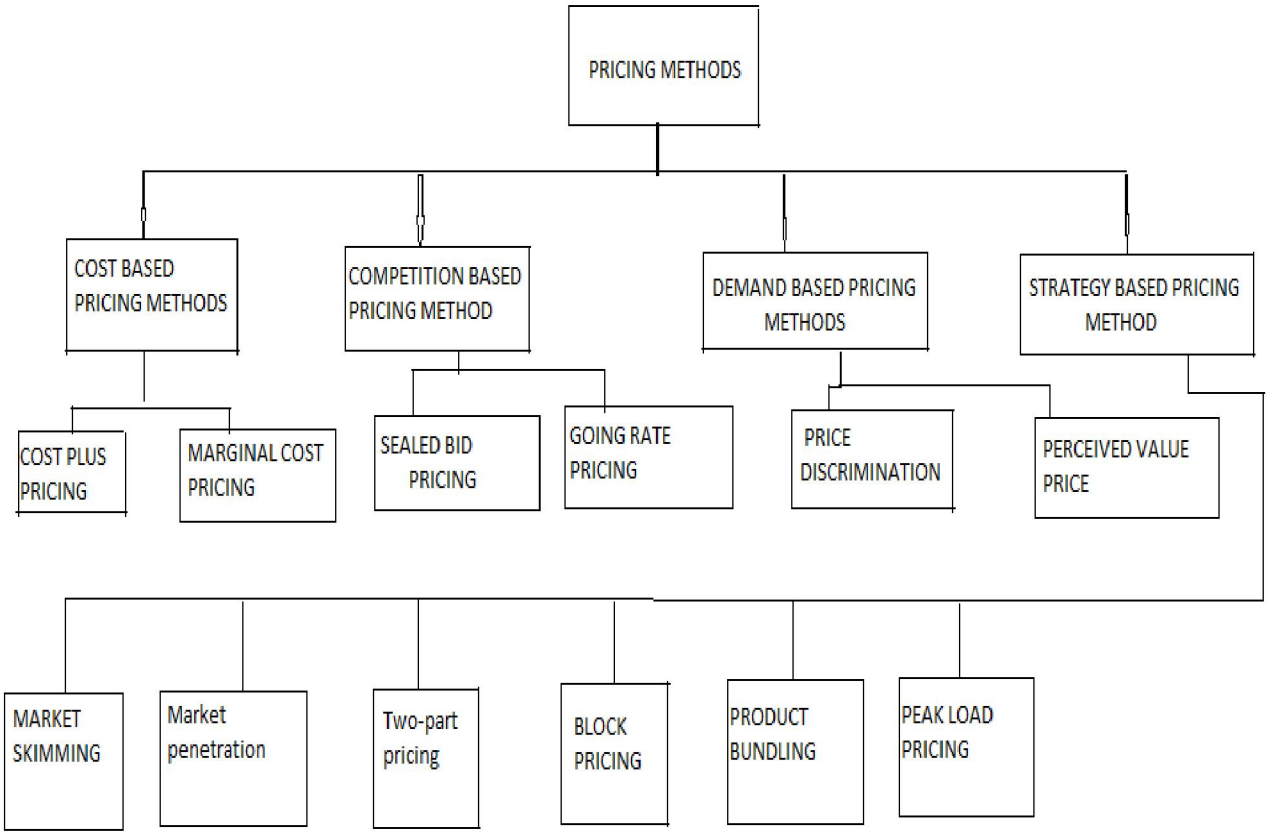
Oligopsony is a market situation in which there will be a few buyers and many sellers. As the sellers are more and buyers are few, the price of product will be comparatively low but not as low as under monopoly.

PRICING METHODS

The micro – economic principle of profit maximization suggests pricing by the marginal analysis. That is by equating MR to MC. However the pricing methods followed by the firms in practice around the world rarely follow this procedure. This is for two reasons; uncertainty with regard to demand and cost function and the deviation from the objective of short run profit maximization.

It was seen that there is no unique theory of firm behavior. While profit certainly on important variable for which every firm cares. Maximization of short – run profit is not a popular objective of a firm today. At the most firms seek maximum profit in the long run. If so the problem is dynamic and its solution requires accurate knowledge of demand and cost conditions over time. Which is impossible to come by?

In view of these problems economic prices are a rare phenomenon. Instead, firms set prices for their products through several alternative means. The important pricing methods followed in practice are shown in the chart.



I. COST BASED PRICING METHODS

1.Cost plus pricing: This is also called "full cost or mark up" pricing. Hence the average cot at normal capacity of output is ascertained and then a conventional margin of profit is added to the cost to arrive at the price in other words find out the product units total cost and add a percentage of profit to arrive at the selling price.

2**. Marginal cost pricing**:- In marginal cost pricing selling price is fixed in such a way that it covers fully the variable or marginal cost and contributes towards recovery at fixed costs or partly depending upon the market situations.

II. COMPETITION –ORIENTED PRICING

1. Sealed bid pricing: This method is more popular in tenders and contract, each contracting firm quotes its price in a sealed cover called "tender" All the tenders are opened on a schedule in date and the person who quotes the lowest price other things remaining the same is awarded the contract.

2. Going rate price:- Here the price charge by the firm is in tune with the price charged in the industry as whole. In other words the prevailing market price at a given point of time is the guiding factor. When one wants to buy or sell gold, the prevailing market rate at given point of time is taken as the bas to determine the price.

III. DEMAND ORIENTED PRICE

1. Price discrimination:- It refers to the practice of charging different prices to the customers for the same good. The firm uses it discretion to charge differently eh different customer it is also called as "differential pricing".

2. Perceived value pricing:- it refers to where the price is fixed on the basis of the perception of the buyers of the value of the product.

IV. STRATEGY-BASED PRICING

1. Market skimming:- When the product is introduced for the first time in the market, the company follows this method. Under this method the company fixes a very high price for the product. The main idea is to charge the customer maximum possible. This strategy is most found in case of technology products. When sony

Introduces a particular TV model, it fixes a very high price. When new series of Pentium is released in to market, it is priced very high. Initially all cannot afford except a very few. As the time passed by the price comes down and more people cannot to buy.

2. Market penetration:- This is exactly opposite to the market skimming method. Here the price of the product is fixed so low that the company can increase its market share. The company attains profits with increasing volumes and increase in the market share. More often, the companies believe that it is necessary to dominate the market in the long run than marketing profits in the short run. This method is more suitable where market is highly price sensitive.

3. Two part pricing:- The firms with market power can enhance profits by the strategy of two port pricing. Under this strategy, a firm charges a fixed fee for the right to purchase its goods, plus a per unit charge for each unit purchased. Entertainment houses such as country clubs, athletic clubs and health clubs usually adopt this strategy.

4. Block pricing:- Block pricing is another way a firm with market power can enhance its profit. We see block pricing in our day to day life very frequently. Six lox soaps in a single pack illustrate this pricing method. By selling certain number of units of a product as one package, the firm earns more than by selling unit wise. The block pricing is a profit maximization price on each package.

5.Commodity bundling:- commodity bundling refers to the practice of bundling two or more different product together and selling them at a single 'bundle price' commodity bundling is a viable price strategy to enhance profits when consumers differ with respect to the amounts they are willing to pay for multiple products sold by a firm.

6. Peak-load pricing:- During seasonal period when demand is likely to be higher a firm may enhance profit by peak load pricing. The firms philosophy is to charge a higher price during peak times than is charged during off peak times. That the business is not lost to the competitors. The firm following such a strategy covers the likely losses during the off peak times from the likely profits from the peak times.

BUSINESS AND NEW ECONOMIC ENVIRONMENT

Imagine you want to do business. Which are you interested in? For example, you want to get into InfoTech industry. What can you do in this industry? Which one do you choose? The following are the alternatives you have on hand:

- You can buy and sell
- You can set up a small/medium/large industry to manufacture
- You can set up a workshop to repair
- You can develop software
- You can design hardware
- You can be a consultant/trouble-shooter

If you choose any one or more of the above, you have chosen the line of activity. The next step for you is to decide whether.

- You want to be only owner (It means you what to be sole trader) or
- You want to take some more professionals as co-owners along with you (If means you what to from partnership with others as partners) or
- You want to be a global player by mobilizing large resources across the country/world
- You want to bring all like-minded people to share the benefits of the common enterprise (You want to promote a joint stock company) or
- You want to involve government in the IT business (here you want to suggest government to promote a public enterprise!)

To decide this, it is necessary to know how to evaluate each of these alternatives.

Factors affecting the choice of form of business organization

Before we choose a particular form of business organization, let us study what factors affect such a choice? The following are the factors affecting the choice of a business organization:

1. **Easy to start and easy to close:** The form of business organization should be such that it should be easy to close. There should not be hassles or long procedures in the process of setting up business or closing the same.
2. **Division of labour:** There should be possibility to divide the work among the available owners.

3. **Large amount of resources:** Large volume of business requires large volume of resources. Some forms of business organization do not permit to raise larger resources. Select the one which permits to mobilize the large resources.
4. **Liability:** The liability of the owners should be limited to the extent of money invested in business. It is better if their personal properties are not brought into business to make up the losses of the business.
5. **Secrecy:** The form of business organization you select should be such that it should permit to take care of the business secrets. We know that century old business units are still surviving only because they could successfully guard their business secrets.
6. **Transfer of ownership:** There should be simple procedures to transfer the ownership to the next legal heir.
7. **Ownership, Management and control:** If ownership, management and control are in the hands of one or a small group of persons, communication will be effective and coordination will be easier. Where ownership, management and control are widely distributed, it calls for a high degree of professional's skills to monitor the performance of the business.
8. **Continuity:** The business should continue forever and ever irrespective of the uncertainties in future.
9. **Quick decision-making:** Select such a form of business organization, which permits you to take decisions quickly and promptly. Delay in decisions may invalidate the relevance of the decisions.
10. **Personal contact with customer:** Most of the times, customers give us clues to improve business. So choose such a form, which keeps you close to the customers.
11. **Flexibility:** In times of rough weather, there should be enough flexibility to shift from one business to the other. The lesser the funds committed in a particular business, the better it is.
12. **Taxation:** More profit means more tax. Choose such a form, which permits to pay low tax.

These are the parameters against which we can evaluate each of the available forms of business organizations.

SOLE TRADER

The sole trader is the simplest, oldest and natural form of business organization. It is also called sole proprietorship. 'Sole' means one. 'Sole trader' implies that there is only one trader who is the owner of the business.

It is a one-man form of organization wherein the trader assumes all the risk of ownership carrying out the business with his own capital, skill and intelligence. He is the boss for himself. He has total operational freedom. He is the owner, Manager and controller. He has total freedom and flexibility. Full control lies with him. He can take his own decisions. He can choose or drop a particular product or business based on its merits. He need not discuss this with anybody. He is responsible for himself. This form of organization is popular all over the world. Restaurants, Supermarkets, pan shops, medical shops, hosiery shops etc.

Features

- It is easy to start a business under this form and also easy to close.
- He introduces his own capital. Sometimes, he may borrow, if necessary
- He enjoys all the profits and in case of loss, he lone suffers.
- He has unlimited liability which implies that his liability extends to his personal properties in case of loss.
- He has a high degree of flexibility to shift from one business to the other.
- Business secretes can be guarded well
- There is no continuity. The business comes to a close with the death, illness or insanity of the sole trader. Unless, the legal heirs show interest to continue the business, the business cannot be restored.
- He has total operational freedom. He is the owner, manager and controller.
- He can be directly in touch with the customers.
- He can take decisions very fast and implement them promptly.
- Rates of tax, for example, income tax and so on are comparatively very low.

Advantages

The following are the advantages of the sole trader from of business organization:

1. **Easy to start and easy to close**: Formation of a sole trader from of organization is relatively easy even closing the business is easy.
2. **Personal contact with customers directly:** Based on the tastes and preferences of the customers the stocks can be maintained.
3. **Prompt decision-making:** To improve the quality of services to the customers, he can take any decision and implement the same promptly. He is the boss and he is responsible for his business Decisions relating to growth or expansion can be made promptly.
4. **High degree of flexibility:** Based on the profitability, the trader can decide to continue or change the business, if need be.

5. **Secrecy:** Business secrets can well be maintained because there is only one trader.
6. **Low rate of taxation:** The rate of income tax for sole traders is relatively very low.
7. **Direct motivation:** If there are profits, all the profits belong to the trader himself. In other words. If he works more hard, he will get more profits. This is the direct motivating factor. At the same time, if he does not take active interest, he may stand to lose badly also.
8. **Total Control:** The ownership, management and control are in the hands of the sole trader and hence it is easy to maintain the hold on business.
9. **Minimum interference from government:** Except in matters relating to public interest, government does not interfere in the business matters of the sole trader. The sole trader is free to fix price for his products/services if he enjoys monopoly market.
10. **Transferability:** The legal heirs of the sole trader may take the possession of the business.

Disadvantages

The following are the disadvantages of sole trader form:

1. **Unlimited liability:** The liability of the sole trader is unlimited. It means that the sole trader has to bring his personal property to clear off the loans of his business. From the legal point of view, he is not different from his business.
2. **Limited amounts of capital:** The resources a sole trader can mobilize cannot be very large and hence this naturally sets a limit for the scale of operations.
3. **No division of labour:** All the work related to different functions such as marketing, production, finance, labour and so on has to be taken care of by the sole trader himself. There is nobody else to take his burden. Family members and relatives cannot show as much interest as the trader takes.
4. **Uncertainty:** There is no continuity in the duration of the business. On the death, insanity of insolvency the business may be come to an end.
5. **Inadequate for growth and expansion:** This from is suitable for only small size, one-man-show type of organizations. This may not really work out for growing and expanding organizations.
6. **Lack of specialization:** The services of specialists such as accountants, market researchers, consultants and so on, are not within the reach of most of the sole traders.

7. **More competition:** Because it is easy to set up a small business, there is a high degree of competition among the small businessmen and a few who are good in taking care of customer requirements along can service.
8. **Low bargaining power:** The sole trader is the in the receiving end in terms of loans or supply of raw materials. He may have to compromise many times regarding the terms and conditions of purchase of materials or borrowing loans from the finance houses or banks.

PARTNERSHIP

Partnership is an improved from of sole trader in certain respects. Where there are like-minded persons with resources, they can come together to do the business and share the profits/losses of the business in an agreed ratio. Persons who have entered into such an agreement are individually called 'partners' and collectively called 'firm'. The relationship among partners is called a partnership.

Indian Partnership Act, 1932 defines partnership as the relationship between two or more persons who agree to share the profits of the business carried on by all or any one of them acting for all.

Features

1. **Relationship:** Partnership is a relationship among persons. It is relationship resulting out of an agreement.
2. **Two or more persons:** There should be two or more number of persons.
3. **There should be a business**: Business should be conducted.
4. **Agreement:** Persons should agree to share the profits/losses of the business
5. **Carried on by all or any one of them acting for all:** The business can be carried on by all or any one of the persons acting for all. This means that the business can be carried on by one person who is the agent for all other persons. Every partner is both an agent and a principal. Agent for other partners and principal for himself. All the partners are agents and the 'partnership' is their principal.

The following are the other features:

(a) **Unlimited liability:** The liability of the partners is unlimited. The partnership and partners, in the eye of law, and not different but one and the same. Hence, the partners have to bring their personal assets to clear the losses of the firm, if any.

(b) **Number of partners:** According to the Indian Partnership Act, the minimum number of partners should be two and the maximum number if restricted, as given below:

- 10 partners is case of banking business
- 20 in case of non-banking business

(c) **Division of labour:** Because there are more than two persons, the work can be divided among the partners based on their aptitude.

(d) **Personal contact with customers:** The partners can continuously be in touch with the customers to monitor their requirements.

(e) **Flexibility:** All the partners are likeminded persons and hence they can take any decision relating to business.

Partnership Deed

The written agreement among the partners is called 'the partnership deed'. It contains the terms and conditions governing the working of partnership. The following are contents of the partnership deed.

1. Names and addresses of the firm and partners
2. Nature of the business proposed
3. Duration
4. Amount of capital of the partnership and the ratio for contribution by each of the partners.
5. Their profit sharing ration (this is used for sharing losses also)
6. Rate of interest charged on capital contributed, loans taken from the partnership and the amounts drawn, if any, by the partners from their respective capital balances.
7. The amount of salary or commission payable to any partner
8. Procedure to value good will of the firm at the time of admission of a new partner, retirement of death of a partner
9. Allocation of responsibilities of the partners in the firm
10. Procedure for dissolution of the firm
11. Name of the arbitrator to whom the disputes, if any, can be referred to for settlement.
12. Special rights, obligations and liabilities of partners(s), if any.

KIND OF PARTNERS

The following are the different kinds of partners:

1. **Active Partner:** Active partner takes active part in the affairs of the partnership. He is also called working partner.
2. **Sleeping Partner:** Sleeping partner contributes to capital but does not take part in the affairs of the partnership.
3. **Nominal Partner:** Nominal partner is partner just for namesake. He neither contributes to capital nor takes part in the affairs of business. Normally, the nominal partners are those who have good business connections, and are well places in the society.
4. **Partner by Estoppels:** Estoppels means behavior or conduct. Partner by estoppels gives an impression to outsiders that he is the partner in the firm. In fact be neither contributes to capital, nor takes any role in the affairs of the partnership.
5. **Partner by holding out:** If partners declare a particular person (having social status) as partner and this person does not contradict even after he comes to know such declaration, he is called a partner by holding out and he is liable for the claims of third parties. However, the third parties should prove they entered into contract with the firm in the belief that he is the partner of the firm. Such a person is called partner by holding out.
6. **Minor Partner:** Minor has a special status in the partnership. A minor can be admitted for the benefits of the firm. A minor is entitled to his share of profits of the firm. The liability of a minor partner is limited to the extent of his contribution of the capital of the firm.

Right of partners

Every partner has right

(a) To take part in the management of business
(b) To express his opinion
(c) Of access to and inspect and copy and book of accounts of the firm
(d) To share equally the profits of the firm in the absence of any specific agreement to the contrary
(e) To receive interest on capital at an agreed rate of interest from the profits of the firm
(f) To receive interest on loans, if any, extended to the firm.
(g) To be indemnified for any loss incurred by him in the conduct of the business
(h) To receive any money spent by him in the ordinary and proper conduct of the business of the firm.

Advantages

The following are the advantages of the partnership from:

1. **Easy to form:** Once there is a group of like-minded persons and good business proposal, it is easy to start and register a partnership.
2. **Availability of larger amount of capital:** More amount of capital can be raised from more number of partners.
3. **Division of labour:** The different partners come with varied backgrounds and skills. This facilities division of labour.
4. **Flexibility:** The partners are free to change their decisions, add or drop a particular product or start a new business or close the present one and so on.
5. **Personal contact with customers**: There is scope to keep close monitoring with customers requirements by keeping one of the partners in charge of sales and marketing. Necessary changes can be initiated based on the merits of the proposals from the customers.
6. **Quick decisions and prompt action:** If there is consensus among partners, it is enough to implement any decision and initiate prompt action. Sometimes, it may more time for the partners on strategic issues to reach consensus.
7. **The positive impact of unlimited liability:** Every partner is always alert about his impending danger of unlimited liability. Hence he tries to do his best to bring profits for the partnership firm by making good use of all his contacts.

Disadvantages:

The following are the disadvantages of partnership:

1. **Formation of partnership is difficult:** Only like-minded persons can start a partnership. It is sarcastically said,' it is easy to find a life partner, but not a business partner'.
2. **Liability:** The partners have joint and several liabilities beside unlimited liability. Joint and several liability puts additional burden on the partners, which means that even the personal properties of the partner or partners can be attached. Even when all but one partner become insolvent, the solvent partner has to bear the entire burden of business loss.
3. **Lack of harmony or cohesiveness:** It is likely that partners may not, most often work as a group with cohesiveness. This result in mutual conflicts, an

attitude of suspicion and crisis of confidence. Lack of harmony results in delay in decisions and paralyses the entire operations.

4. **Limited growth:** The resources when compared to sole trader, a partnership may raise little more. But when compare to the other forms such as a company, resources raised in this form of organization are limited. Added to this, there is a restriction on the maximum number of partners.
5. **Instability:** The partnership form is known for its instability. The firm may be dissolved on death, insolvency or insanity of any of the partners.
6. **Lack of Public confidence:** Public and even the financial institutions look at the unregistered firm with a suspicious eye. Though registration of the firm under the Indian Partnership Act is a solution of such problem, this cannot revive public confidence into this form of organization overnight. The partnership can create confidence in other only with their performance.

JOINT STOCK COMPANY

The joint stock company emerges from the limitations of partnership such as joint and several liability, unlimited liability, limited resources and uncertain duration and so on. Normally, to take part in a business, it may need large money and we cannot foretell the fate of business. It is not literally possible to get into business with little money. Against this background, it is interesting to study the functioning of a joint stock company. The main principle of the joint stock company from is to provide opportunity to take part in business with a low investment as possible say Rs.1000. Joint Stock Company has been a boon for investors with moderate funds to invest.

The word ' company' has a Latin origin, com means ' come together', pany means ' bread', joint stock company means, people come together to earn their livelihood by investing in the stock of company jointly.

Company Defined

Lord justice Lindley explained the concept of the joint stock company from of organization as 'an association of many persons who contribute money or money's worth to a common stock and employ it for a common purpose.

"Company is an artificial person created by law with perpetual succession and common seal". According to company act 1956.

Features

This definition brings out the following features of the company:

1. **Artificial person:** The Company has no form or shape. It is an artificial person created by law. It is intangible, invisible and existing only, in the eyes of law.
2. **Separate legal existence**: it has an independence existence, it separate from its members. It can acquire the assets. It can borrow for the company. It can sue other if they are in default in payment of dues, breach of contract with it, if any. Similarly, outsiders for any claim can sue it. A shareholder is not liable for the acts of the company. Similarly, the shareholders cannot bind the company by their acts.
3. **Voluntary association of persons**: The Company is an association of voluntary association of persons who want to carry on business for profit. To carry on business, they need capital. So they invest in the share capital of the company.
4. **Limited Liability**: The shareholders have limited liability i.e., liability limited to the face value of the shares held by him. In other words, the liability of a shareholder is restricted to the extent of his contribution to the share capital of the company. The shareholder need not pay anything, even in times of loss for the company, other than his contribution to the share capital.
5. **Capital is divided into shares**: The total capital is divided into a certain number of units. Each unit is called a share. The price of each share is priced so low that every investor would like to invest in the company. The companies promoted by promoters of good standing (i.e., known for their reputation in terms of reliability character and dynamism) are likely to attract huge resources.
6. **Transferability of shares**: In the company form of organization, the shares can be transferred from one person to the other. A shareholder of a public company can cell sell his holding of shares at his will. However, the shares of a private company cannot be transferred. A private company restricts the transferability of the shares.
7. **Common Seal**: As the company is an artificial person created by law has no physical form, it cannot sign its name on a paper; so, it has a common seal on which its name is engraved. The common seal should affix every document or contract; otherwise the company is not bound by such a document or contract.
8. **Perpetual succession**: 'Members may comes and members may go, but the company continues for ever and ever' A. company has uninterrupted existence because of the right given to the shareholders to transfer the shares.
9. **Ownership and Management separated**: The shareholders are spread over the length and breadth of the country, and sometimes, they are from different

parts of the world. To facilitate administration, the shareholders elect some among themselves or the promoters of the company as directors to a Board, which looks after the management of the business. The Board recruits the managers and employees at different levels in the management. Thus the management is separated from the owners.

10. **Winding up**: Winding up refers to the putting an end to the company. Because law creates it, only law can put an end to it in special circumstances such as representation from creditors of financial institutions, or shareholders against the company that their interests are not safeguarded. The company is not affected by the death or insolvency of any of its members.
11. **The name of the company ends with 'limited'**: it is necessary that the name of the company ends with limited (Ltd.) to give an indication to the outsiders that they are dealing with the company with limited liability and they should be careful about the liability aspect of their transactions with the company.

FORMATION OF A JOINT STOCK COMPANY

There are two stages in the formation of a joint stock company. They are:

a) To obtain certificate of Incorporation

b) To obtain certificate of commencement of Business.

The certificate of Incorporation is just like a 'date of birth' certificate. It certifies that a company with such and such a name is born on a particular day. Certificate of commencement of Business authorizes a public company to start its commercial operations officially.

A public company has to comply with certain requirements to obtain certificate of commencement of Business. A private company need obtain the certificate of commencement of business. It can start its commercial operations immediately after obtaining the certificate of Incorporation.

The persons who conceive the idea of starting a company and who organize the necessary initial resources are called 'promoters'. The vision of the promoters forms the backbone for the company in the future to reckon with.

The promoters have to file the following documents, along with necessary fee, with the register of joint stock companies to obtain certificate of Incorporation.

For Certificate of Incorporation

1) Memorandum of Association:- The memorandum of Association is also called the charter of the company. It outlines the relations of the company with the outsiders. IT furnishes all its details in six clauses such as

A. name clause

B. situation clause

C. objects clause

D. capital clause

E. liability clause

F. subscription clause

2) Articles of Association:- Articles of Association furnishes the bye-laws or internal rules governing the internal conduct of the company.

3)Details about directors:- The list of names and addresses of the proposed directors and their willingness in writing to act such in case of registration of a public company.

4) Statutory declaration: - A statutory declaration that all the legal requirements have been fulfilled. The declaration has to be duly signed by any one of the following : company secretary in whole time practice, the proposed director, chartered accountant or advocate of high court.

The Registrar of joint stock companies per uses and verifies whether all these documents are in order or not. If he is satisfied with the information furnished, he will register the documents and then issue a certificate of Incorporation. If it is private company, it can start its business operations immediately after obtaining certificate of Incorporation.

If it is a public company the following formalities are to be completed further:

For the Certificate of commencement of Business

1) Seek permission from SEBI:- The promoters have to make an application furnishing the details of certificate of Incorporation to securities Exchange Board of INDIA, seeking permission to issue prospects. Prospectors are a notice, letter or circular noting the general public to subscribe to the share capital of the company.

2) File prospectus with Registrar: - After seeking permission from SEBI, file the prospectors with the Registrar of joint stock companies.

3) Collecting minimum subscription:- Minimum subscription refers to the minimum amount of capital required to start the business operations such as acquiring fixed assets, working capital, payment of share issue expenses such as brokerage, underwriting commission and soon.

It is necessary that the amount of minimum subscription is raised within 70 days from the date of issue of prospectors. If the company fails to raise the minimum subscription with the said time limit, the company is bound to refund entire share application money.

4) Allotting shares: - Normally shares are allotted as applied for. In case of over subscription, the basis of allotment is finalized in consultation with the stock exchange under which it is proposed to be listed and the allotment is made on lottery basis. In case of unsuccessful applicants, the money received with the share application will be refunded within a specified time, failing which the company is bound to pay with interest and also liable for legal action.

5) Apply To the Registrar for the certificate of commencement of Business:-

After raising minimum subscription, the company has to make an application again with the following declaration that:

a) Minimum subscription as stated in the prospectus has been collected,

b) All the legal formalities has been fulfilled.

The registrar will once again verify the exactness of the details of the above declarations. If he is satisfied, he will then issue certificate of commencement of business.

A public company can short its operations immediately from the date of obtaining the certificate of commencement of Business.

MAIN DOCUMENTS IN COMPANY FORMATION

The main documents in company formation are

1. Memorandum of association
2. Articles of association
3. Prospectus

While drafting the contents of these documents the promoters should take a special care to fit their vision into the contents of these documents. Otherwise, it will be difficult to change its contents at a later date.

1. MEMORANDUM OF ASSOCIATION: Memorandum of association is also called the charter or constitution for the company. It is because it lays down in precise and clear terms. The objectives of the company, defines the scope of its operations and its relations with the investors and outside world. The company has to necessarily conduct its operations within the limits set by the memorandum of association. It is a public document and hence it should be printed and made available to the public for a price. The contents of memorandum of association are classified into six clauses. They are

(a) **Name clause** This clause deals with the name particulars of the company. It is necessary that the name of a private company should end with the words 'private limited' and that of a public company should end with 'limited'.

(b) **Registered or situation clause** This clause deals with the particulars of state in which registered office is proposed to be situated.

(c) **Objects clause** The objectives of the company, in the short run and long run, are furnished here. The promoters should take special care to draft the objects clause in particular. The objects should be drafted in such a way that they provide high degree of operational freedom.

(d) **Liability clause** This clause specifies that the liability in respect of shares issued by the company is limited to the face value of the shares.

(e) **Capital clause** It specifies the details of authorized capital with which it plans to get registered. This clause explains the particulars of the amounts of equity and preference share of capital to be issued by the company.

(f) **Subscription clause** Here a declaration has to be made that 'the persons signing this Clauses have interest to form this company and they have taken the number of shares as indicated against their names. The declaration is to be signed by two members in case of a private company and seven members in case of a public company and duly witnessed.

2. ARTICLES OF ASSOCIATION: Articles of the association contains the rules of procedure for the internal management and control of affairs of the company. The memorandum defines the relationship of the company with the outside world, while the Articles of association refer to the rules of procedure in the internal management and control of the affairs of the company. The main contents of articles of association are as follows

i. Amount of share capital and different types of capital.
ii. Methods to increase or decrease capital.
iii. Different types of shares, their respective rights.
iv. Procedure in respect to transfer of shares.
v. Procedure to conduct board meetings and general body meeting.
vi. Powers, rights and duties of directors in the board.
vii. Procedure in appointment and removal of a director.
viii. Remuneration of directions.
ix. Matters relating to accounts and audit.
x. Procedure for amending the contents of memorandum of association.
xi. Procedure for distribution of dividend.
xii. Procedure for winding up.
xiii. Rules regarding common seal of the company.

3. PROSPECTUS: A prospectus is defined as a 'notice, circular, advertisement or any other document inviting offers from the public for the subscription or purchase of any shares in or debentures of the body corporate.

Prospectus is the first and basic document that supports the structure of the company. An investor will go through prospectus to assess the feasibility of his investment in the company.

Concepts of prospectus:

The following are the contents of the Prospectus:

a) The name of the company and address of its registered office.

b) The nature and business of the company.

c) The main objectives of the company.

d) The number and types of shares and debentures issued in the past.

e) The list of promoters with their names, addresses and their past record.

f) The list of directors with their names, addresses and occupations.

g) The list of signatories to the memorandum of association and their names, addresses.

h) Details of the brokers, underwriters, merchant bankers, bankers to the public.

i) Rights and restrictions as applicable to each class of share or debenture.

j) Amount of minimum subscription to be received before the allotment of shares.

k) Opening date and closing date of public offer.

l) Minimum number of shares to be applied and how much is to be paid per share on application.

m) Preliminary expenses incurred.

n) Property purchase or proposed to be purchased.

o) Amount of reserve fund and how it is to be utilized.

p) The names of auditors, bankers and solicitors.

Prospectus is a sensitive document of the company. It is so because for any mistake in the prospectus, the promoters and directors responsible for issue of prospectus will personally be liable, for any misstatement in prospectus, civil and criminal proceedings can be initiated against them as per the provisions of the companies Act. Most of the companies, for this reason, restrict their liability by announcing the prospectus given in the newspapers as a 'Statement but not a prospectus'. For the exact information, the public is directed to see the official document issued by the company.

Advantages

The following are the advantages of a joint Stock Company

1. **Mobilization of larger resources:** A joint stock company provides opportunity for the investors to invest, even small sums, in the capital of large companies. The facilities rising of larger resources.
2. **Separate legal entity:** The Company has separate legal entity. It is registered under Indian Companies Act, 1956.
3. **Limited liability:** The shareholder has limited liability in respect of the shares held by him. In no case, does his liability exceed more than the face value of the shares allotted to him.
4. **Transferability of shares:** The shares can be transferred to others. However, the private company shares cannot be transferred.
5. **Liquidity of investments**: By providing the transferability of shares, shares can be converted into cash.
6. **Inculcates the habit of savings and investments**: Because the share face value is very low, this promotes the habit of saving among the common man and mobilizes the same towards investments in the company.
7. **Democracy in management**: the shareholders elect the directors in a democratic way in the general body meetings. The shareholders are free to make any proposals, question the practice of the management, suggest the possible remedial measures, as they perceive, The directors respond to the issue raised by the shareholders and have to justify their actions.
8. **Economics of large scale production**: Since the production is in the scale with large funds at
9. **Continued existence**: The Company has perpetual succession. It has no natural end. It continues forever and ever unless law put an end to it.
10. **Institutional confidence**: Financial Institutions prefer to deal with companies in view of their professionalism and financial strengths.
11. **Professional management**: With the larger funds at its disposal, the Board of Directors recruits competent and professional managers to handle the affairs of the company in a professional manner.
12. **Growth and Expansion**: With large resources and professional management, the company can earn good returns on its operations, build good amount of reserves and further consider the proposals for growth and expansion.

All that shines is not gold. The company from of organization is not without any disadvantages. The following are the disadvantages of joint stock companies.

Disadvantages

1. **Formation of company is a long drawn procedure**: Promoting a joint stock company involves a long drawn procedure. It is expensive and involves large number of legal formalities.
2. **High degree of government interference**: The government brings out a number of rules and regulations governing the internal conduct of the operations of a company such as meetings, voting, audit and so on, and any violation of these rules results into statutory lapses, punishable under the companies act.
3. **Inordinate delays in decision-making**: As the size of the organization grows, the number of levels in organization also increases in the name of specialization. The more the number of levels, the more is the delay in decision-making. Sometimes, so-called professionals do not respond to the urgencies as required. It promotes delay in administration, which is referred to 'red tape and bureaucracy'.
4. **Lack or initiative**: In most of the cases, the employees of the company at different levels show slack in their personal initiative with the result, the opportunities once missed do not recur and the company loses the revenue.
5. **Lack of responsibility and commitment**: In some cases, the managers at different levels are afraid to take risk and more worried about their jobs rather than the huge funds invested in the capital of the company lose the revenue.
6. **Lack of responsibility and commitment:** In some cases, the managers at different levels are afraid to take risk and more worried about their jobs rather than the huge funds invested in the capital of the company. Where managers do not show up willingness to take responsibility, they cannot be considered as committed. They will not be able to handle the business risks.

PUBLIC ENTERPRISES

Public enterprises occupy an important position in the Indian economy. Today, public enterprises provide the substance and heart of the economy. Its investment of over Rs.10,000 crore is in heavy and basic industry, and infrastructure like power, transport and communications. The concept of public enterprise in Indian dates back to the era of pre-independence.

Genesis of Public Enterprises

In consequence to declaration of its goal as socialistic pattern of society in 1954, the Government of India realized that it is through progressive extension of public enterprises only, the following aims of our five years plans can be fulfilled.

- Higher production
- Greater employment
- Economic equality, and
- Dispersal of economic power

The government found it necessary to revise its industrial policy in 1956 to give it a socialistic bent.

Need for Public Enterprises

The Industrial Policy Resolution 1956 states the need for promoting public enterprises as follows:

- To accelerate the rate of economic growth by planned development
- To speed up industrialization, particularly development of heavy industries and to expand public sector and to build up a large and growing cooperative sector.
- To increase infrastructure facilities
- To disperse the industries over different geographical areas for balanced regional development
- To increase the opportunities of gainful employment
- To help in raising the standards of living
- To reducing disparities in income and wealth (By preventing private monopolies and curbing concentration of economic power and vast industries in the hands of a small number of individuals)

Achievements of public Enterprises

The achievements of public enterprise are vast and varied. They are:

1. Setting up a number of public enterprises in basic and key industries
2. Generating considerably large employment opportunities in skilled, unskilled, supervisory and managerial cadres.

3. Creating internal resources and contributing towards national exchequer for funds for development and welfare.
4. Bringing about development activities in backward regions, through locations in different areas of the country.
5. Assisting in the field of export promotion and conservation of foreign exchange.
6. Creating viable infrastructure and bringing about rapid industrialization (ancillary industries developed around the public sector as its nucleus).
7. Restricting the growth of private monopolies
8. Stimulating diversified growth in private sector
9. Taking over sick industrial units and putting them, in most of the vases, in order,
10. Creating financial systems, through a powerful networking of financial institutions, development and promotional institutions, which has resulted in social control and social orientation of investment, credit and capital management systems.
11. Benefiting the rural areas, priority sectors, small business in the fields of industry, finance, credit, services, trade, transport, consultancy and so on.

Let us see the different forms of public enterprise and their features now.

Forms of public enterprises

Public enterprises can be classified into three forms:

(a) Departmental undertaking
(b) Public corporation
(c) Government company

These are explained below

Departmental Undertaking

This is the earliest from of public enterprise. Under this form, the affairs of the public enterprise are carried out under the overall control of one of the departments of the government. The government department appoints a managing director (normally a civil servant) for the departmental undertaking. He will be given the executive authority to take necessary decisions. The departmental undertaking does not have a budget of its own. As and when it wants, it draws money from the government exchequer and when it has surplus money, it deposits it in the government exchequer. However, it is subject to budget, accounting and audit controls.

Examples for departmental undertakings are Railways, Department of Posts, All India Radio, Doordarshan, Defence undertakings like DRDL, DLRL, ordinance factories, and such.

Features

1. **Under the control of a government department**: The departmental undertaking is not an independent organization. It has no separate existence. It is designed to work under close control of a government department. It is subject to direct ministerial control.
2. **More financial freedom:** The departmental undertaking can draw funds from government account as per the needs and deposit back when convenient.
3. **Like any other government department**: The departmental undertaking is almost similar to any other government department
4. **Budget, accounting and audit controls**: The departmental undertaking has to follow guidelines (as applicable to the other government departments) underlying the budget preparation, maintenance of accounts, and getting the accounts audited internally and by external auditors.
5. **More a government organization, less a business organization** . The set up of a departmental undertaking is more rigid, less flexible, slow in responding to market needs.

Advantages

1. **Effective control**: Control is likely to be effective because it is directly under the Ministry.
2. **Responsible Executives**: Normally the administration is entrusted to a senior civil servant. The administration will be organized and effective.
3. **Less scope for mystification of funds**: Departmental undertaking does not draw any money more than is needed, that too subject to ministerial sanction and other controls. So chances for mis-utilisation are low.
4. **Adds to Government revenue**: The revenue of the government is on the rise when the revenue of the departmental undertaking is deposited in the government account.

Disadvantages

1. **Decisions delayed**: Control is centralized. This results in lower degree of flexibility. Officials in the lower levels cannot take initiative. Decisions cannot be fast and actions cannot be prompt.
2. **No incentive to maximize earnings**: The departmental undertaking does not retain any surplus with it. So there is no inventive for maximizing the efficiency or earnings.
3. **Slow response to market conditions**: Since there is no competition, there is no profit motive; there is no incentive to move swiftly to market needs.
4. **Redtapism and bureaucracy**: The departmental undertakings are in the control of a civil servant and under the immediate supervision of a government department. Administration gets delayed substantially.
5. **Incidence of more taxes**: At times, in case of losses, these are made up by the government funds only. To make up these, there may be a need for fresh taxes, which is undesirable.

Any business organization to be more successful needs to be more dynamic, flexible, and responsive to market conditions, fast in decision marking and prompt in actions. None of these qualities figure in the features of a departmental undertaking. It is true that departmental undertaking operates as a extension to the government. With the result, the government may miss certain business opportunities. So as not to miss business opportunities, the government has thought of another form of public enterprise, that is, Public corporation.

PUBLIC CORPORATION

Having released that the routing government administration would not be able to cope up with the demand of its business enterprises, the Government of India, in 1948, decided to organize some of its enterprises as statutory corporations. In pursuance of this, Industrial Finance Corporation, Employees' State Insurance Corporation was set up in 1948.

Public corporation is a 'right mix of public ownership, public accountability and business management for public ends'. The public corporation provides machinery, which is flexible, while at the same time retaining public control.

Definition

A public corporation is defined as a 'body corporate create by an Act of Parliament or Legislature and notified by the name in the official gazette of the central or state government. It is a corporate entity having perpetual succession, and common seal with power to acquire, hold, dispose off property, sue and be sued by its name".

Examples of a public corporation are Life Insurance Corporation of India, Unit Trust of India, Industrial Finance Corporation of India, Damodar Valley Corporation and others.

Features

1. **A body corporate**: It has a separate legal existence. It is a separate company by itself. If can raise resources, buy and sell properties, by name sue and be sued.
2. **More freedom and day-to-day affairs**: It is relatively free from any type of political interference. It enjoys administrative autonomy.
3. **Freedom regarding personnel**: The employees of public corporation are not government civil servants. The corporation has absolute freedom to formulate its own personnel policies and procedures, and these are applicable to all the employees including directors.
4. **Perpetual succession**: A statute in parliament or state legislature creates it. It continues forever and till a statue is passed to wind it up.
5. **Financial autonomy**: Through the public corporation is fully owned government organization, and the initial finance are provided by the Government, it enjoys total financial autonomy, Its income and expenditure are not shown in the annual budget of the government, it enjoys total financial autonomy. Its income and expenditure are not shown in the annual budget of the government. However, for its freedom it is restricted regarding capital expenditure beyond the laid down limits, and raising the capital through capital market.
6. **Commercial audit**: Except in the case of banks and other financial institutions where chartered accountants are auditors, in all corporations, the audit is entrusted to the comptroller and auditor general of India.
7. **Run on commercial principles**: As far as the discharge of functions, the corporation shall act as far as possible on sound business principles.

Advantages

1. **Independence, initiative and flexibility**: The corporation has an autonomous set up. So it is independent, take necessary initiative to realize its goals, and it can be flexible in its decisions as required.
2. **Scope for Redtapism and bureaucracy minimized**: The Corporation has its own policies and procedures. If necessary they can be simplified to eliminate redtapism and bureaucracy, if any.
3. **Public interest protected**: The corporation can protect the public interest by making its policies more public friendly, Public interests are protected because every policy of the corporation is subject to ministerial directives and board parliamentary control.
4. **Employee friendly work environment**: Corporation can design its own work culture and train its employees accordingly. It can provide better amenities and better terms of service to the employees and thereby secure greater productivity.
5. **Competitive prices**: the corporation is a government organization and hence can afford with minimum margins of profit, It can offer its products and services at competitive prices.
6. **Economics of scale**: By increasing the size of its operations, it can achieve economics of large-scale production.
7. **Public accountability**: It is accountable to the Parliament or legislature; it has to submit its annual report on its working results.

Disadvantages

1. **Continued political interference**: the autonomy is on paper only and in reality, the continued.
2. **Misuse of Power**: In some cases, the greater autonomy leads to misuse of power. It takes time to unearth the impact of such misuse on the resources of the corporation. Cases of misuse of power defeat the very purpose of the public corporation.
3. **Burden for the government**: Where the public corporation ignores the commercial principles and suffers losses, it is burdensome for the government to provide subsidies to make up the losses.

Government Company

Section 617 of the Indian Companies Act defines a government company as "any company in which not less than 51 percent of the paid up share capital" is held by the

Central Government or by any State Government or Governments or partly by Central Government and partly by one or more of the state Governments and includes and company which is subsidiary of government company as thus defined".

A government company is the right combination of operating flexibility of privately organized companies with the advantages of state regulation and control in public interest.

Government companies differ in the degree of control and their motive also.

Some government companies are promoted as

- industrial undertakings (such as Hindustan Machine Tools, Indian Telephone Industries, and so on)
- Promotional agencies (such as National Industrial Development Corporation, National Small Industries Corporation, and so on) to prepare feasibility reports for promoters who want to set up public or private companies.
- Agency to promote trade or commerce. For example, state trading corporation, Export Credit Guarantee Corporation and so such like.
- A company to take over the existing sick companies under private management (E.g. Hindustan Shipyard)
- A company established as a totally state enterprise to safeguard national interests such as Hindustan Aeronautics Ltd. And so on.
- Mixed ownership company in collaboration with a private consult to obtain technical know how and guidance for the management of its enterprises, e.g. Hindustan Cables)

Features

The following are the features of a government company:

1. **Like any other registered company**: It is incorporated as a registered company under the Indian companies Act. 1956. Like any other company, the government company has separate legal existence. Common seal, perpetual succession, limited liability, and so on. The provisions of the Indian Companies Act apply for all matters relating to formation, administration and winding up. However, the government has a right to exempt the application of any provisions of the government companies.
2. **Shareholding**: The majority of the share are held by the Government, Central or State, partly by the Central and State Government(s), in the name of the President of India, It is also common that the collaborators and allotted some shares for providing the transfer of technology.

3. **Directors are nominated**: As the government is the owner of the entire or majority of the share capital of the company, it has freedom to nominate the directors to the Board. Government may consider the requirements of the company in terms of necessary specialization and appoints the directors accordingly.
4. **Administrative autonomy and financial freedom**: A government company functions independently with full discretion and in the normal administration of affairs of the undertaking.
5. **Subject to ministerial control**: Concerned minister may act as the immediate boss. It is because it is the government that nominates the directors, the minister issue directions for a company and he can call for information related to the progress and affairs of the company any time.

Advantages

1. **Formation is easy**: There is no need for an Act in legislature or parliament to promote a government company. A Government company can be promoted as per the provisions of the companies Act. Which is relatively easier?
2. **Separate legal entity**: It retains the advantages of public corporation such as autonomy, legal entity.
3. **Ability to compete:** It is free from the rigid rules and regulations. It can smoothly function with all the necessary initiative and drive necessary to complete with any other private organization. It retains its independence in respect of large financial resources, recruitment of personnel, management of its affairs, and so on.
4. **Flexibility**: A Government company is more flexible than a departmental undertaking or public corporation. Necessary changes can be initiated, which the framework of the company law. Government can, if necessary, change the provisions of the Companies Act. If found restricting the freedom of the government company. The form of Government Company is so flexible that it can be used for taking over sick units promoting strategic industries in the context of national security and interest.
5. **Quick decision and prompt actions**: In view of the autonomy, the government company take decision quickly and ensure that the actions and initiated promptly.
6. **Private participation facilitated**: Government company is the only from providing scope for private participation in the ownership. The facilities to take the best, necessary to conduct the affairs of business, from the private sector and also from the public sector.

Disadvantages

1. **Continued political and government interference**: Government seldom leaves the government company to function on its own. Government is the major shareholder and it dictates its decisions to the Board. The Board of Directors gets these approved in the general body. There were a number of cases where the operational polices were influenced by the whims and fancies of the civil servants and the ministers.
2. **Higher degree of government control**: The degree of government control is so high that the government company is reduced to mere adjuncts to the ministry and is, in majority of the cases, not treated better than the subordinate organization or offices of the government.
3. **Evades constitutional responsibility**: A government company is creating by executive action of the government without the specific approval of the parliament or Legislature.
4. **Poor sense of attachment or commitment**: The members of the Board of Management of government companies and from the ministerial departments in their ex-officio capacity. The lack the sense of attachment and do not reflect any degree of commitment to lead the company in a competitive environment.
5. **Divided loyalties**: The employees are mostly drawn from the regular government departments for a defined period. After this period, they go back to their government departments and hence their divided loyalty dilutes their interest towards their job in the government company.
6. **Flexibility on paper:** The powers of the directors are to be approved by the concerned Ministry, particularly the power relating to borrowing, increase in the capital, appointment of top officials, entering into contracts for large orders and restrictions on capital expenditure. The government companies are rarely allowed to exercise their flexibility and independence.

QUESTIONS

1. Define a joint stock company & explain its basic features, advantages & disadvantages
2. Write short notes pm (a) Sole trader (b) Stationery corporation.
3. Explain in basic features of Government Company from of public enterprise.
4. What do you mean by sole proprietorship? Explain its meant and limitations.
5. Define partnership from of business. Explain its salient features.
6. What are the factors governing choice of form of business organization.
7. Write short notes on (a) public company (b) Government Company (c) Private Company

8. What is the need of public enterprises? Explain the recent achievement of public enterprises
9. What is a partnership deed? Discuss the main contents partnership deed.
10. Write short note on (a) Departmental undertaking (b) articles of association
11. 'Small is beautiful'. Do you think, this is the reason for the survival of the sole trader from of business organization? Support your answer with suitable examples.
12. Explain how a firm attains equilibrium in the short run and in the long run under conditions of perfect competition.
13. Explain the following with the help of the table and diagram under perfect competition and monopoly
14. Total Revenue
15. Marginal Revenue
16. Average Revenue
17. Define monopoly. How is price under monopoly determined?
18. Explain the role of time factor in the determination of price. Also explain price-O/P determination in case of perfect competition.
19. (a) Distinguish between perfect & imperfect markets (b) What are the different market situations in imperfect competition.
20. "Perfect competition results in larger O/P with lower price than a monopoly" Discuss.
21. Compare between monopoly and perfect competition.
22. What is price discrimination? Explain essential conditions for price discrimination.
23. Explain the following (a) Monopoly (B) Duopoly (c) Oligopoly (d) imperfect competition.
24. What is a market? Explain, in brief, the different market structures.
25. Monopoly is disappearing from markets. Do you agree with this statement? Do you advocate for monopoly to continue in market situations.

QUIZ

1. Exchange value of a unit of good expressed in terms of money is called ( )
   (a) Cost (b) Capital
   (c) Price (d) Expenditure

2. The price of a product is determined by the _____of that product ( )
   (a) Place and time (b) Production and sales
   (c) Demand and supply (d) Cost and income

3. The price at which demand and supply of a commodity equal is ( )
   Known as
   (a) High price (b) Low price
   (c) Equilibrium price (d) Marginal price

4. A market where large number of buyers and sellers dealing in ( )

Homogeneous product with perfect knowledge is called
(a) Imperfect competition (b) Monopoly
(c) Perfect competition (d) Monopolistic competition

5. In which market, single market price prevails for the commodity ( )
(a) Monopoly market (b) Oligopoly market
(c) Perfect competition market (d) Duopoly market

6. The Price determined in the very short period is known as_____. ( )
(a) Secular price (b) Normal price
(c) Market price (d) Short run price

7. In which period, the supply of commodity is fixed ( )
(a) Short period (b) Long period
(c) Very short period (d) Very long period

8. Charging very high price in the beginning and reducing it gradually is called ( )
(a) Differential pricing (b) Sealed bid pricing
(c) Skimming pricing (d) Penetration pricing

9. If monopoly arises on account of legal support or as a matter of legal Privilege, it is called as ( )
(a) Private monopoly (b) Government monopoly
(c) Legal monopoly (d) Single price monopoly

10. Under which pricing method, price just equals the total cost ( )
(a) Marginal cost pricing (b) Cost plus pricing
(c) Full cost pricing (d) Going rate pricing

11. _____ is a place in which goods and services are bought and sold. ( )
(a) Factory (b) Workshop
(c) Market (d) Warehouse

12. _____ is the example for perishable goods. ( )
(a) Pens (b) Belts
(c) Vegetables (d) Cloths

13. _____is a form of market organization in which There is only one seller of the commodity. ( )
(a) Perfect Competition (b) Duopoly
(c) Monopoly (d) Oligopoly

14. If average Revenue is greater than the Average cost, monopolist Earns __ . ( )
(a) Loss (b) No loss No profit
(c) Profit (d) None

15. The firm is said to be in equilibrium, when it's Marginal Cost (MC) Equals to___ . ( )
(a) Total cost (b) Total revenue
(c) Marginal Revenue (d) Average Revenue

16. _____ is a position where the firm has no incentive either to expand or contrast its output. ( )
(a) Maximum output (b) Minimum output
(c) Equilibrium (d) None

17. Marginal revenue, Average revenue and Demand are the same in _____ Market Environment ( )
(a) Monopoly (b) Duopoly
(c) Perfect Competition (d) Imperfect Competition

18. _____ is a period in which supply can be increased by altering the Variable factors and fixed costs will remain constant. ( )
(a) Long – run (b) Mid – term
(c) Short – run (d) Market period

19. The total supply of a good is produced by a single private person or Firm is called as_____. ( )
(a) Government Monopoly (b) Legal Monopoly
(c) Private Monopoly (d) Natural Monopoly

20. In perfect competition market, seller is the _____. ( )
(a) Price – Maker (b) Price changer
(c) Price – Taker (d) Price Dictator

21. Charging Very Low price in the beginning and increasing it gradually is called _____ ( )
(a) Differential pricing (b) Sealed bid Pricing
(c) Penetration Pricing (d) Skimming Pricing

22. If Average Revenue is less than the Average Cost, Monopoly secures __. ( )
(a) Profits (b) Abnormal Profits
(c) Losses (d) Super Profits

23. In Monopoly market environment, seller is the _____. ( )
(a) Price - Taker (b) Price - Accepter
(c) Price - Maker (d) None

24. A Partnership firm can be formed with a minimum of Two Partners and it can have a maximum of _____ Partners . ( )
(a) 50 (b) 40 (c) 20 (d) 30

25. "People may come and people may leave, but I go on forever" is Applicable to _____ Business organization. ( )
(a) Sole proprietorship (b) Partnership

(c) Company (d) Joint Hindu Family

26. _____ is Supreme Authority for Company Organization. ( )
(a) Directors (b) Debenture holders
(c) Share holders (d) Creditors

27. "One man one vote" Principle is adopted in _____. ( )
(a) Partnership firms (b) Company
(c) Co-operative enterprises (d) Hindu family business

28. The management of 'Joint Hindu Family' business vests in the eldest member of the family, called _____. ( )
(a) Director (b) Grand father
(c) Kartha (d) Manager

29. Minimum Two and maximum _____ members are permitted in Private limited company. ( )
(a) Un-limited (b) 20 (c) 50 (d) 10

30. Minimum ___ and maximum _____ members are permitted in Public limited company. ( )
(a) 50 ; Un-limited (b) 20 ; 50
(c) 7 ; Un-limited (d) 7 ; 50

31. Liability of sole proprietor is _____. ( )
(a) Limited (b) Minimum
(c) Un-limited (d) None

32. Liability of Shareholder _____. ( )
(a) Un-limited (b) Maximum
(c) Limited to the share capital (d) None

33. Certificate of commencement of business should be obtained by ___ company to start its functions. ( )
(a) Private (b) Statutory
(c) Public (d) Chartered

34. Company operates in more than one Country is called as _____. ( )
(a) Private company (b) Government company
(c) Multinational company (d) Indian company

35. _____ is not required to private company to start its functions. ( )
(a) Certificate of incorporation (b) Registration
(c) Certificate of commencement of business (d) None

36. _____ partner can enjoy profits but no liability for losses. ( )

(a) Active (b) Sleeping (c) Minor (d) Nominal

37. In public sector unit's ownership is in the hands of _____. ( )

(a) Private persons (b) Public
(c) Government (d) None

38. Promoting balanced regional development is one of the objectives of _____ units ( )

(a) Private sector (b) Joint sector
(c) Public sector (d) None

39. If either state government of central government or both have got not less than 51% of share in the organization. Then that is called____. ( )

(a) Private organization (b) Partnership organization
(c) Government organization (d) Joint sector organization

<u>Note:</u> Answer is <u>"C"</u> for all the above questions.