

MARKET AND PRODUCTION

6.1 Meanings of Market

Generally, market means a place where things are sold and bought. But in economics it has a vast meaning. It is a place or region where sellers and buyers very easily come in contact with one another directly or indirectly in order to mature their transactions. The main function of a market is to enable an exchange of goods and services to take place. It is not necessary that these contacts are made personally. The communication in the market may be by telephone, telegraph, telex, Internet etc.

Definitions:

According to Professor Benham, “A market is a place where buyers and sellers are in such a close contact with each other, either directly or through dealers, that the prices obtainable in one place of the market affect the prices paid in other places”.

According to Lipsey, “A market is an area over which buyers and sellers negotiate for the exchange of a well-defined commodity”.

6.2 Kinds of Markets

There are two kinds of markets according to the nature of competition.

6.3 Perfect Competition Market

In perfect competition market, the law of one price holds and this requires certain conditions to be fulfilled.

(1) Large number of buyers and sellers

There are a large number of buyers and sellers and none of them can influence the market price. All the firms are price takers.

(2) Homogeneity of Products

All the firms produce identical products. The product is homogenous. So, there is no difference in shape or packing. On this basis, the cost of production is the same so price is also the same.

(3) Free entry and exit

New producers are free to enter the market and old ones are free to exit the market at any time.

(4) Perfect knowledge of the market

This means that sellers and buyers have complete information about the market. The sellers have the knowledge of price and cost of production whereas the buyers have the knowledge of price and quality of the products. On these basis, one price is determined by the law of supply and demand and the law of one price prevails.

(5) Perfect mobility of factors of production

This means that the factors of production have complete freedom to move from one place to another in pursuit of better returns. This factor of perfect mobility makes returns equal in all production sectors and thus one price holds in the market.

6.4 Imperfect Market

In this kind of market, the law of one price does not hold. Therefore, if conditions of perfect market do not hold then it becomes imperfect market. In such a market, individual firm is capable of influencing the price of a product. The features of imperfect market are as follows:

1. Sellers are a few in number.
2. Goods are heterogeneous; therefore, different goods have different prices.
3. There is no perfect mobility in factors of production. Returns are different for each factor of production so cost of production is also different. This results in difference in prices.
4. Consumers have imperfect knowledge about the market conditions. Therefore, they are unable to buy at minimum price or sometimes buy lower quality product. This is why the imperfect market is not beneficial for the consumers.

6.5 Short Period Market

There are two kinds of short period market.

1. Daily Market.

This is also called market period. In this kind of market, price changes daily. It consists of those agricultural products that are perishable and cannot be stored, such as, cucumbers spinach, tomatoes, etc. The market period begins at the moment farmers place their ready goods in the market to sell. Supply is fixed and cannot be increased according to the demand. The supply curve is perfectly inelastic which means it is vertical to the x-axis. Therefore, price is only determined with the help of demand curve.

2. Short Period Market

In this kind of market, goods can be stored. This time period is longer than the market period since firms have some ability to adjust production to changes in the

market conditions. However, the period is not long enough to install new machinery and equipment. This means that fixed inputs (land) remain the same, only variable inputs like labour and raw material can be changed. The supply curve of short period market is less elastic, which means that change in price is more than the change in quantity.

6.6 Long Period Market

The time period of this kind of market is quite long and fixed factors of production can be changed according to an increase in demand. Here, the supply curve is more elastic than in the short period. This means that due to a change in price, the increase in the quantity supplied is more in the long period than the increase in the quantity supplied in the short period. The main reason being that in the long period, the fixed factors of production also become variable and installing new and modern machinery can produce more. In this period, supply plays an important role to determine the price. In short period, there may be an increase in price due to increase in demand but in the long run, the price again settles at normal level due to an increase in supply.

6.7 Production

Production not only means making or creating things but also creating utility. Any kind of labour, which creates utility in one form or the other, is a part of the production process. In addition to utility, a thing must have a value also. To produce a thing having utility but not having value is no production in terms of economics. Production includes not only goods but services also. Transformation of one thing to another means production; for example, a log of wood changed into a table is production.

6.8 Importance of Factors of Production

Production cannot take place unless the necessary resources are available. These resources include factories, farms, mines, human skills, offices and shops. Resources can also be called factors of production or inputs.

There are four kinds of factors of production. These are land, labour, capital and organization. Let us explain the main characteristics and importance of these factors.

6.9 Land

This is the first basic factor of production. Land does not mean only the surface on which we move around but it includes all the things in it which are gift of nature. Land comprises all kinds of natural resources. The natural fertility of land, climate, sea, mountains, and mineral wealth, all are natural resources.

David Ricardo gave three important features of land, which made it distinct from the other factors of production. These are:

1. Land is a gift of nature.
2. Land is limited in supply.
3. Production in industries primarily depends on land.

The main characteristic of land is its use as a site where some form of economic activity can be carried out. In the words of Marshall, **“Earth surface is a primary condition of anything that a man can do; it gives him room for his action.”**

Importance of Land:

- (1) It is a foremost factor of production without which any economic activity is impossible.
- (2) It provides food to the human beings. It supplies fruits and vegetables.
- (3) It makes possible the construction of huge buildings and houses for living.
- (4) Fertile and productive land helps in economic development of a country.
- (5) Agricultural development depends on the best qualities of land.
- (6) Industrial development depends on the raw material provided by the agriculture sector.
- (7) Land provides natural resources such as minerals, lakes mountains, forest, rivers and canals, etc.

6.10 Labour

Labour is the second factor of production. It is called the physical and mental human effort which helps one to earn livelihood. Labour is not only a factor of production but it is also the reason why economic activity takes place. The people who take part in production are also consumers. The sum of consumers demand provides businessperson with the incentive to undertake production. So, labour is considered to be special. It is important to note that it is the services of labour which are bought and sold, and not labour itself.

Importance of Labour

Labour is very important in production.

- (1) Labour is an active factor of production without which the presence of land becomes meaningless. Productive capacity of land is evident from the efforts of labour.
- (2) All the goods used are fruits of labour. From necessities of life to luxuries items all are the result of human effort.

- (3) Increase in national income of industrial countries, like Great Britain, Japan, America, is due to the labour of workers.
- (4) In agricultural countries, like Pakistan, India, and Bangladesh, Agricultural production is due to the labour of workers.

6.11 Capital

It is a man made resource. It is used in the production of other goods and services. In the words of Chapman, **“Capital is the wealth which yields an income or aids in the production of an income or is intended to do so”**.

Adam Smith states that **“capital is that part of a person’s wealth, which further helps in producing income.”** Thus, it is evident that capital is that part of wealth, which helps in producing additional income.

Importance of Capital

- (1) Capital is as much important as any other factor of production. Without capital other economic resources cannot be utilized.
- (2) Capital is an essential input in big firms.
- (3) Larger amount of capital increases the efficiency of the firms.
- (4) Modern equipment and advance machinery increases production and rapid economic development is possible.
- (5) A greater use of capital increases the pace of agriculture and industrial development.
- (6) Capital helps in payment of wages.
- (7) Firms try their best to increase their sales through advertisement that is possible only with the help of capital.

6.12 Entrepreneur

It is the term used to denote the organizing factor in production. The entrepreneur organizes land, labour and capital to produce goods. The entrepreneur not only earns profit for himself but he also makes payments to other factors of production. Risks are present in almost every business so sometimes he has to face the losses also.

According to Professor Newin, **“Entrepreneur is a person who makes an organized link with land, labour and capital and decides about the number of units of each factor of production to be used and what goods to be produced.”**

In the words of Stonier and Hague, **“The difference between the entrepreneur and other factors of production is that land, labour and capital can be hired but the entrepreneur cannot be hired.”**

Importance of an Entrepreneur

- (1) The entrepreneur decides what, where, how and for whom to be produced.
- (2) The entrepreneur can combine factors of production without which a good cannot be produced.
- (3) Good management of the entrepreneur helps to utilize country's resources most efficiently.
- (4) A capable entrepreneur not only increases his profit by optimum combination of factors of production but also plays an important role in economic development of his country.
- (5) The entrepreneur helps in wealth distribution. He distributes the share of income to land, labour and capital according to the agreement.
- (6) The entrepreneur keeps seeking new ways of production with advanced technology. This helps him to keep cost of production as minimum as possible so as to increase his profits.

Exercise

Q.1 Each question has four possible answers, Tick (✓) the best answer.

1. The duty of a market is not
 - (a) To make exchange of goods and services possible
 - (b) To contact buyers and sellers
 - (c) To determine price
 - (d) To give maximum output
2. Which of the following is not a factor of production?
 - (a) land
 - (b) labour
 - (c) capital
 - (d) output
3. Kinds of market according to competition are
 - (a) four
 - (b) six
 - (c) two
 - (d) three
4. It is not a characteristic of perfect competition that
 - (a) Large number of sellers
 - (b) Homogeneity of goods
 - (c) Mobility of factors of production
 - (d) Price of the same commodity is different

- Q.2 Complete the following statements by filling in the missing words or phrases.
1. In the long run land becomes a _____ factor.
 2. Supply curve of daily market is _____.
 3. All factors of production become variable in the _____.
 4. In the long run with an increase in _____ price settles at normal level.
 5. Capital is that part of a person's wealth which helps in producing more _____.

- Q.3 Match the statement in column A with statement in column B; choose the best answer to write in column C.

A	B	C
In imperfect market	Price changes daily	
In long run market	Prices of goods are different	
In daily market	Land is a variable factor of production	
In perfect market	There is a rule of one price	
In short run market	Land is a fixed factor of production	

- Q.4 Answer the following questions in three sentences.

1. What does land mean?
2. What does labour mean?
3. What does capital mean?
4. What does organization mean?
5. Why does price change in daily market?

- Q.5 Answer the following questions in detail.

1. What does a market mean? Give kinds of market with regard to the nature of competition.
2. Explain the difference between perfect and imperfect markets.
3. Explain the characteristics of short and long period markets.
4. Write a note on importance of factors of production.
5. Explain the role of capital in production.