BEHAVIOR OF MARKETS AND ITS EVIDENCE TO SET PRICES: AN OUTLOOK

Management Insight
14(2) 89 - 100
DOI: https://doi.org/10.21844/mijia.14.01.9

Indrani Sengupta*

Correspondence Email: indrani.sengupta@aurouniversity.edu.in

Markets, a very broader term in economics and has a wider perspective. It's an amalgamation of buyers and sellers of a product and the spread between them. The transactions for commodities may be also through letters, telegrams, telephones, internet etc. It refers to a commodity and the buyers and sellers who are in direct competition with one another. There are certain crucial structure and patterns of market that gets reflected by nature of competition prevailing in a particular market structure. Price is one such determinant……The paper provides a conceptual framework about the adjustments of price and the various mechanisms it goes through in the process of setting of the final price. The paper attempts to discuss some qualitative parameters that have been used in setting up of the prices in various types of distinct markets where there are different equations goes on between the transacting parties.

Keywords: Market behavior, market dynamics, pricing mechanism, demand and supply forces.

INTRODUCTION

Markets, when they function efficiently, can offer a great deal of information regarding the beliefs of the people who participate in that market. Prices, and changes in prices, rreveals lots of information which not only tdells aboutis currentys markegt scenhayrio bveut also apre dict future This information is what forms the foundations for determination of the prices of the respective goods or service in the marketplace. Furthermore, production, marketing and consumption of the goods or service are guided by the prices that are determined in the markets.

Economics defined six major markets forms (Perfect Competition Market, Monopolistic Market, Oligopolistic Market, Monopoly Market, Oligopoly Market and Monopsony Market) which can distinctly be identified in various economies throughout the world. Be any economy or any domain of marketplace, for a part of data will have an effect on the price levels of a specific goods or service in the market, it needs to influence the either the demand curve or the supply curve innate to that goods or service. Under typical situations, both, the demand curve and the supply curve may be affected, concurrently, at an even or a variable pace, bringing about a miscellaneous impact on the price levels. Impact of such dual-edged situations is hard to approximation because it is very

*Assistant Professor, Auro University, Surat

challenging to determine the magnitude by which the information will have an impact on the demand curve and on the supply curve, respectively. A common piece of information may have diverse impacts on the economy depending upon the kind of markets, number and kind of players in the market, their behavioral response towards the information and their future expectations and presumptions regarding the impact of the respective information on the market and market conditions. Classically if we see, an economy holds almost all the market forms, depending upon the types of segments and sectors present and contributing towards the economic growth. However, all the market forms, be it in any economy, bare certain characteristics that are unique to them and are clearly evident from the way the markets operate and function and the kind of ripples that a piece of information may have on them.

Information flow is what forms the essence of any market structure, enabling the contributors to base their verdicts and decisions on the rational grounds. Information is what gives rise to speculation and anticipation in the market, which accounts for the element of dynamism in the market. Information could be in any direction of positive or negative, but the point that marketers are sure about is that the decisive market prices will be formed and prepared by this information.

LITERATURE REVIEW

The study conducted by **Copeland** and **Shapiro** (2013) was conducted with an objective to determine the influence if competition and upstream innovation on the pricing strategies adopted by various firms. The analysis implies that rapid price changes are caused due to a bolted effect of the aforementioned factors and that they hold equal weightage in determining the pricing strategy adopted by the respective firm.

As per the research As per the research conducted by **Ingenbleek** (2013), it was discovered that price strategies and price-setting practices. However, some business organizations do not follow most of the strategies specified by pricing theory, some practices are correlated because strategies are instigated through price-setting firms involve in practices for no vibrant strategic reasons, while some firms ineffectively engage in suitable practices to implement their strategic selections.

The research by **Konieczny** and **Skrzypacz** (2000) conducted in Poland to study the behavior of prices in the big-bang market reforms in 1990. It was found that for most of the goods, the rapid drop ended within a year. Dispersion was low for goods which were expensive. Inflation and inflation variability explain only part of the changes of price dispersion over time. The behavior of price dispersion was consistent with search for the best price and arbitrage. Overall, prices behave as economic theory predicts they would.

Lipovetsky, **Magnan** and **Polzi** (2011) inferred that pricing of the product is a highly complex decision and is not merely inluenced by the organizations but also by several other factors affecting the product prices in a dynamic market. Various direct methods such as customer's willingness to pay and indirect methods such as Gabor-Granger and van

Westendorp techniques could be employed to determine the price levels.

The research by **Altissimo, Ehemann** and **Smets** (2006) arranges a summary of present knowledge on inflation persistence and price stickiness in the Eurozone, based on research findings that have been shaped in the context of the Inflation Persistence Network. The main findings were: i) Under the contemporarnty monetary policy regime, estimated degree of inflation is constanet in the euro area is moderate; ii) Retail prices in the euro area are stickier than in the United States; iii) There is significant sectorial heterogeneity in the degree of price stickiness; iv) Price decreases are not uncommon. This paper also captures some of the policy implications of the findings.

This is as per the research conducted and compiled by **Kiminori Matsuyama** (1993), in recent past, monopolistic competition models have frequently been used and applied in macroeconomics, international and interregional economic fields, and also in the field of economies growth and development.

The study conducted by **Mika Husso** (2011), the findings reveals that the U.S. and European mobile markets are primarily diverse. Firstly, while in Europe several parallel sales channels did exist, the U.S. market was dominated by various mobile operators that controlled access to the end customer. Secondly, in the U.S. market phones were generally sold heavily subsidized and bundled, and either under the operator brand or co-branding agreements. Also, the U.S. market has historically split in two technologies, GSM and CDMA, as opposed to Europe where GSM is the dominant technology.

As per the research conducted **Shelby Hunt** (2011), by Edward Chamberlin's theory of monopolistic competition influences greatly the development of literature in area of marketing and thought 1930 -1960. Indeed,the theory was so much haccepted by markeater, that the AMAiation awarded Chamberlin the Paul D. Converse Award in 1953, which was the AMA‟s highest honor in those times. However, the tady's marketing literature nearlly ignore Chamberlin's theory. The author disagree that the theory of monopolistic competition reequires re-examining on two points. Firstly, marketing scholars should have knowledge about their discipline's intellectual history, to which Chamberlin's theory played a important role in developing it. Second, understanding monopolistic competition theories can help ino undertanding contemporary marketing thought. Although our analysis interprets and provides several contributions to the theory, one is ethat: the theory of monopolistic competition can contribute to a better understanding of the "product differentiation versus market segmentation" controversy in Marketing strategy.

OBJECTIVES OF THE STUDY

- To identify and understand various kinds of market forms (Perfect Market, Monopoly Markets, Monopolistic Markets, Oligopolistic Markets, Monopsony Market,) present in the world economy.
- To identify the latest international information/news affecting the market,

globally.

- To identify how this information gets absorbed by the demand curve or the supply curve or both, ultimately reflecting upon the price levels of goods and services in the respective markets.

RESEARCH METHODOLOGY

The data for the aforementioned paper has been gathered through authentic and reliable secondary sources. The traces of information that has been refereed too for the respective paper has been acknowledged and cited according to the acceptable Harvard Referencing standards.

Advantages of secondary data are following:

- The mayin abengefit of using secondary data is that it is cost effective and less time consuming
- Secondly, it also provides a way to access the work of the best scholars all over the world
- Thirdly, secondary data gives a frame of mind to the researcher that guides him/her in the proper direction

THE CONTEXT

- **PERFECT COMPETITION / MARKET**

The contemporary situation in a market where buyers and sellers are well informed, hence all all elements of monopoly become negligible and the market price of a commodity is beyond the control of individual buyers and sellers.

A market structure where five norms are met:

1) All firms sell an homogeneous product;
2) None ofms the rfierym canot control price in the market, ihence all are price takers,
3) Each firms haas relatively smaller market share;
4) Buyers have ompfulle information about market whethert buying price ord y selliang price iny is featzhe m arketnd, t. Perfect competition is alsoe termed as as "pure competition".

CHARACTERISTICS OF PERFECT COMPETITION / MARKET

Large no of small firms → Homogenous Products → Easy Entry and Exit

THE CASE OF WHATSAPP V/S SMS

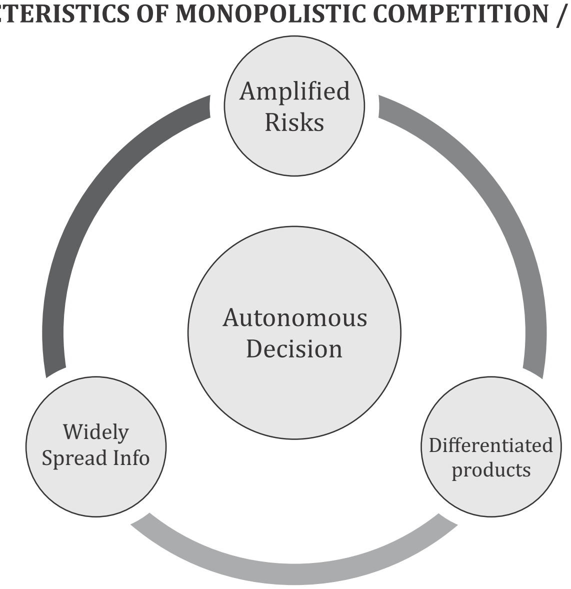
YEAR	RATE PER SMS	SCENARIO
2006	3	Before Whatsapp entered Indian market
2007	3	
2008	2	When Whatsapp entered Indian market
2009 onwards	1	After Whatsapp entered Indian market

Large chunk of SMS revenue has fallen due to the advert of applications such as Whatsapp, Facebook, etc. Yet telecom service provider fell that a large part of Indian population would still prefer to use Main Stream Messaging Platform, rather than more expensive data. Fact says that, there are 300 Million people yet to get connected, who will use SMS as a primary means of sending messages. In Indian market, though SMS usage is declining, SMS will always maintainers platform. According to UK based research, Indian telecom has lost an estimated $ 1.2 Billion in potential revenue from SMS and value added services in 2013, because of social media messaging services. It imeasure this to widen to $ 1.56 Billion this year, $ 2 Billion in 2015 and $ 3.15 Billion the year after that. SMS revenue for Bharti Airtel fell to 5.4% in September 2014. Income from non-voice services, mainly from offering data, rose in the same period to 20.2% of total revenue from 16.4%. Vodafone India, seens its data revenue jumpner ad, ofcaten more than llSMS revenue. The diminishing contribution of SMS to telecom revenue and increasing demand for data has led to question marks over the survival of text messaging service itself. More than 70% of devices sold in India are still feature phones; i.e. Indian population is more likely to use cheaper devices than Smart phones, which leads to increase SMS users.

- **MONOPOLISTIC COMPETITION / MARKET**

Monopolistic Competition, as a market structure, was first acknowledged by American economist Edward Chamberlin and British economist Joan Robinson in 1930s. It is a type of imperfect competition in which there are large number of producers that produce and sell almost similar kind of product with a nominal differentiation, making then unique them in their own sense and hence are not perfectly substitutes. In monopolistic competition, the firms act as “price makers” rather than price takers because the product offered by each of the producer is differentiated to certain degree making it unique.

CHARACTERISTICS OF MONOPOLISTIC COMPETITION / MARKET



There are four main types of differentiation:

- Physical Product Differentiation
- Marketing Differentiation
- Human Capital Differentiation
- Differentiation Through Distribution

EXAMPLES OF MAJOR MONOPOLISTIC COMPETITION / MARKET

- The Banking Industry
- The Film Industry
- The Advertisement Industry
- The Fashion Industry
- The Furniture Industry
- The Hotel Industry
- The Software Industry

"PRADHAN MANTRI JAN-DHAN YOJANA"

Pradhan Mantri Jan-Dhan Yojana (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner.

IMPORTANT FEATURES

(Impact on Banking Sector)

1. Under the scheme, account holders get the benfit rof zero-balance bank account with RuPay debit card. The account holder will get an additional accident insurance cover of 20Rs.1 lakh, a life insurance cover of Rs.30, 000 and a bank overdraft of Rs.5, 000.

Impact –

Following this, more and more people will shop using debit cards, reducing manpower, time and risk involved in transaction. Also, more relevant data will be made available to the businesses and government to perform various analysis. The government will be able to maintain a proper record regarding smallest of the transactions under this provision.

The Aftermath -

On the very first day, more than 1.5 crore Saving Bank Accounts were opened up under this scheme with an average deposited amount of Rs.900. Within a couple of months the number rose to 5 crore Saving Bank Accounts, with an aggregate of more that Rs.1500 crores in deposited under the respective scheme.

As per the analysis and calculations of the RBI, the government of India would have to pay and interest of Rs.200 crores on these bank accounts every quarter. Thus, to minimize the impact of excessive infusion of capital in the economy, the RBI revised the CRR from 4.25% to 4.00%, the Base Lending Rate form 10.25% to 10.15%, the Repo Rate from 8.25% to 8.00% and the Deposit Rate from 6.50% to 5.00%.

Thus, all the government banks followed the trail. However, the private banks did react to this change, but not with a similar impulse.

The current CRR Rate, Base Lending Rate and the Deposit rate of Major Private Banks

(ICICI Bank, HDFC Bank and Axis Bank) are as follows:-

	CRR Rate	Base Rate	Deposit Rate
ICICI Bank	4.25%	10%	5.50%
HDFC Bank	4.25%	10%	6.00%
Axis Bank	4.25%	10.25%	6.00%

Acknowledging the fact of greater risk and in order to attract more customers towards it, the Private Banks in India did not reduce the aforementioned rates by the same degree as the Government Banks. They intend to offer higher degree of returns on the same amount of capital invested. Thus, even the Private Banks are offering similar kind of services as that of the Government Banks, they are trying to differentiate themselves from Government Banks by offering a higher degree of return on the same financial instruments.

- **OLIGOPOLYSTIC COMPETITION / MARKET**

An oligopoly is a market construction in which a small number of firms govern the market. Such a market is said to be highly concentrated. Even though only a few firms dominate, it is probable that many minor firms may also function in the market.

An Oligopolistic market may be recognized using concentration ratios, which quantifies the percentage of total market stake controlled by a given number of businesses. When there is a high concentration ratio in an industry, economists tend to identify the industry as an oligopoly.

KEY CHARACTERISTICS

REAL TIME EXAMPLES OF MAJOR OLIGOPOLYSTIC COMPETITION / MARKET

1. **Four Music Companies control 80% of the market** - Universal Music Group, Sony Music Entertainment, Warner Music Group and EMI Group.

2. **Six major Book Publishers** - Random House, Pearson, Hachette, HarperCollins, Simon & Schuster and Holtzbrinck

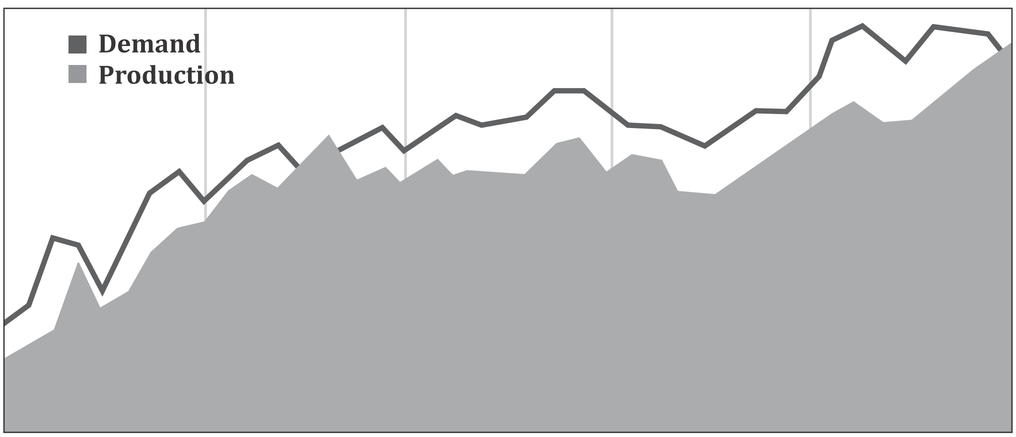
3. **Four Breakfast Cereal Manufacturers** - Kellogg, General Mills, Post and Quaker

4. **Two major producers in the Beer Industry** - Anheuser-Busch and Miller-Coors

THE EBOLA - CRUDE CONNECTION

The spread of Ebola Virus Disease (EVD) was first reported in March 2014. Since then, the disease has spread as an epidemic, with the entire world under its radar. This piece of information has not only influenced the health care sector worldwide, but many other corresponding sectors such as Food & Beverage, the Hotel Industry and International Tourism. However, the most widely influenced sectors have been the Energy & Power and the Aviation Industry. There is no direct connection between the spread of Ebola and its increasing impact on the aforementioned industries. However, this bearing is being triggered by the upshot of this information on the prices of Crude Oil throughout the world.

As per the UN report in accordance to report by the World Health Organization (WHO) published in Sept. 2014, which pronounced Ebola as a highly communicable disease, the international travel reduced by 24% in Q2-Q3 of 2014. This has caused a fall in the demand of crude oil globally. Following is the current demand supply scenario in the crude oil sector (Sept.2013 -14):-



The aforementioned graph shows that for the first time in a decade, crude oil supply has exceeded the demand, causing its prices to take a nosedive in the international markets. The predominant reasons for this, as stated by the experts which has caused the prices to came down from $ 106/ barrel to $ 78/ barrel, is the increasing technological advancement in the respective field and the reduced demand of crude due to a fall in the international travel, majorly caused due to spread of Ebola. The prices of diesel have also gone down substantially owing to reduction in overall road travel, worldwide. Thus, the major importers of crude from the OPEC nations have started cutting back on the quality, further leading to a drop in the price levels.

Contrary to this, the Aviation Industry is facing a mixed impact caused doe to spread of Ebola. The reduction in the International Travel has downsized the bottom line profits generated by the international airlines. However, the reduced prices of the Aviation Turbine Fuel (ATF) has kept them motivated enough to continue operations by lowering the air fare.

Since the OPEC nations, functioning as a cartel in an oligopolistic market, are highly interdependent and have to stick together due to price rigidity of this type of market, they have no other option to showcase proper group behavior and reflect upon the market conditions appropriately by maneuvering the price of the crude in the international market, unless of course they are willing to indulge in a price war.

- **MONOPOLY COMPETITION / MARKET**

A monopoly exists when specific firm is only single supplier of the produ codit. Hence monopolies are thus known to havea lack of research and development which needs for re-innovating news product andr serviceoods. The verb "monopolies" refers to the process by which a company increases its prices or and defeat competitors by capturing their market share In economics, a monopoly is a single seller. A situation in which a single business owns ma jorlityll of the market share for pagrtiofcular product or services By definition, monopoly is characterized by an absence of competition, which often results in high prices and inferior products.

In a monopoly market, aspect like license, ownership of resources, copyright and patent and high starting cost make an company single seller. All these factors restrict the entry of other sellers in the market. Monopolies also have benefit of those information wh ich are not known to the other sellers in the market

CHARACTERISTICS OF MONOPOLY COMPETITION / MARKET

EXAMPLES OF MONOPOLY COMPETITION / MARKET

1. There is Government monopoly over production of nuclear power.
2. Indian Railways has monopoly in Railroad transportation

INDIAN RAILWAYS

TRAIN NAME	PRE MODI GOVERNMENT		POST MODI GOVERNMENT	
Ranthambore Exp.	Fair -125	Passengers-1900	Fair - 135	Passengers-2190
Vasco Express.	Fair -315	Passengers-1500	Fair -365	Passengers-1820
Gujarat Express.	Fair -535	Passengers-1800	Fair -610	Passengers-2100
Gomti Express.	Fair -620	Passengers-1650	Fair -695	Passengers-1900
Darjeeling Mail.	Fair -805	Passengers-1700	Fair -910	Passengers-2100
Swaraj Express.	Fair -2490	Passengers-1850	Fair -2795	Passengers-2000
Duranto Express.	Fair -4330	Passengers-1800	Fair -4900	Passengers-2000
Shatabdi Express.	Fair - 710	Passengers-2000	Fair - 860	Passengers-2260
Jan Shatabdi Exp.	Fair -400	Passengers-2000	Fair -450	Passengers-2380
Garib rath Exp.	Fair -770	Passengers-2400	Fair -870	Passengers-2700

Since the Indian railways operates in a monopolistic market, which is completely inelastic, the price sensitivity is either very low or nil. Due to the aforementioned reason, it can be observed even after a hike in the basic railway tariffs, the number of travelers has grown over the period of time. A year-to-year comparison shows that the figure has skyrocketed by 10-20% on an average and is still growing by leaps and bounds. This market is a classic example of a real time monopolistic market as it showcases all the characteristics of a monopoly market.

MONOPSONY COMPETITION / MARKET

It is a market categorized by a solitary buyer of a product or service. Monopsony is the buying- side correspondent of a selling-side monopoly. Much as a monopoly isthe only seller in a market, monopsony is the only buyer. While monopsony could be scrutinized for any sort of market it tends to be most pertinent for factor markets in which a solitary firm is the only buyer of a factor. While the actual world does not hold monopsony in its true sense labor markets in which a sole large factory is the governing employer in a small civic comes as close as any. Like a monopoly seller, a monopsony buyer is a price maker with comprehensive market control. Monopsony is also equivalent to monopoly in terms of incompetence.

KEY CHARACTERISTICS

Single Firm
No Other Buyer
Heavy Restriction

AMAZON: AN E-BOOK MONOPSONY

Amazon has been dominating the E-Book market since the day of its inception. Currently, the American super-brand occupies 71% of the total e-books soles worldwide. Following its BMV (Books, Music and Videos) model, the company has created a Monopsony in the e-book market. Such was the case on July 21, 2007 when the seventh part of the famous Harry Potter series was launched. Looking at the market sentiments and het excessive demand, the e-book was priced at $40 by the Scholastic Publishers that were catering to the demand in the US. In the very year, the first Kindle (e-book operator) was launched by Amazon, sealing its dominance in the e-book market. In order to promote the Kindle, Amazon priced the e-book of the "Harry Potter and the deathly hallows Part-2" at $30 apiece. This was quite different from the ongoing market price of $40. Initially, the Scholastic Publishers were unwilling to lower down the price of the commodity, however, considering the fact that the Amazon was, then, the only global e-book retailer and also that Amazon was willing to switch from Scholastic Publishers to Bloomsbury Publishers, their immediate rival, if their demanded price was not met, and the Scholastic Publishing Co. had to kneel down to the demands put forth by Amazon. This situation depicts a classic example of a Monopsony market, where there are many sellers but only one buyer who dominates the market.

CONCLUSION

Every market structure possesses and showcases certain distinct characteristics that are unique to it and defines the respective market form. Each market has varying behavioral and functional approach towards a situation. However, a common thing that forms the basis of existence of these market structures and keeps them bolted as a part of an economy is information. Information flow is what forms the lifeblood of an economy and enables the different market forms to function effectively and efficiently. Information forms the basic tool of Price that maneuvers an economy. Price is the first and the most important variable factor that reacts to any information flow in the market. It not only determines whether the information is positive or negative but also the state of economy and the future prospects. Different markets use information differently and to set price levels, which forms an integral part of the economy. This principle follows the conventional thumb rule of "Demand & Supply", but the way a piece of information impacts a market the way the market prices react towards varies from market to market. This varied perception is what outlines each market structure differently and forms the basis of their existence. The way a market uses information to set prices and arrive to other important market decisions is highly unique and subjective and is triggered by a number of factors which characterize the market form.

REFERENCES

2014. [ONLINE] Available at: http://www.econ.uiuc.edu/~seppala/econ102/lect15.pdf. [Accessed 02 November 2014].

2014. [ONLINE] Available at:http://www.bankbazaar.com/fixed-deposit-rate.html. [Accessed 02 November 2014].

ONLINE] Available at:http://www.medianama.com/2014/08/223-pradhan-mantri-jan- dhan-yojana/. [Accessed 02 November 2014].

[ONLINE] Available at:http://www.enotes.com/homework-help/give-real-life-examples- monopoly-perfect-111737. [Accessed 02 November, 2014].

[ONLINE] Available at: http://www.topnews.in/rs-1500-crore-deposited-banks-under-jan-dhan-yojana-modi-2396617. [Accessed 02 November 2014]

· [ONLINE] Available at:http://www.dallasnews.com/business/airline-industry/20141019- Airline-investors-weigh-impact-of-ebola-fears-against-lower-fuel-prices.ece. [Accessed 02 November 2014].

2014.[ONLINE] Available at:http://video.cnbc.com/gallery/?video=3000319987. [Accessed 02 November 2014].

Airline investors weigh impact of Ebola fears against lower fuel prices | Dallas Morning News. 2014. Airline investors weigh impact of Ebola fears against lower fuel prices |Dallas Morning News.

Crude Oil: Supply exceeds Demand For The First Time In A Decade - iPath S&P Crude Oil Total Return Index ETN (NYSEARCA:OIL) | Seeking Alpha. 2014a. [ONLINE] Available at:http://seekingalpha.com/article/677321-crude-oil-supply-exceeds-demand-for-the-first- time-in-a-decade. [Accessed 02 November 2014].

(FAQ) Pradhan Mantri Jan-Dhan Yojana (Pmjdy) - SBI Corporate Website. 2014. (FAQ)s Pradhan Mantri Jan-Dhan Yojana (Pmjdy) - SBI Corporate Website. [ONLINE] Available at: https://www.sbi.co.in/portal/web/customer-care/-faq-pradhan-mantri-jan-dhan-yojana-pmjdy. [Accessed 02 November 2014].

Indian Banking Industry News, Banking Industry, Banking Analysis, Banking Sector, Banking Companies in India. 2014. Indian Banking Industry News, Banking Industry, Banking Analysis, Banking Sector, Banking Companies in India. [ONLINE] Available at:http://businesstoday.intoday.in/categorylist/19/1/banking.html. [Accessed 0November 2014].

Monopolistic competition. 2014. Monopolistic competition. [ONLINE] Available at:http://www.economicsonline.co.uk/Business_economics/Monopolistic_competition.ht ml. [Accessed 02 November 2014].

Oligopoly Examples. 2014. Oligopoly Examples. [ONLINE] Available at: http://examples.yourdictionary.com/oligopoly-examples.html. [Accessed 02 November 2014].

Rs 1,500 crore deposited in banks under Jan Dhan Yojana: Modi | TopNews. 2014. Rs 1,500 crore deposited in banks under Jan Dhan Yojana: Modi | TopNews.

The Lowdown: Digital Impact of the banking related Pradhan Mantri Jan Dhan Yojana - MediaNama. 2014. The Lowdown: Digital Impact of the banking related Pradhan Mantri Jan Dhan Yojana - MediaNama.