SNS COLLEGE OF TECHNOLOGY

Coimbatore-35

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DEPARTMENT OF MECHATRONICS

16GE302 – ENGINEERING ECONOMICS AND COST ANALYSIS

UNIT 2 – DEMAND AND SCHEDULE

TIME ELEMENT IN THE DETERMINATION OF VALUE

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Syllabus

Unit 2: Demand and Schedule

Demand - demand schedule - demand curve - law of demand - elasticity of demand - types of elasticity - factors determining elasticity - measurement - its significance - supply – supply schedule - supply curve - law of supply - elasticity of supply - ***time element in the determination of value - market price and normal price - perfect competition - monopoly – monopolistic competition.***

Time Element in the Determination of Value

- *The time factor has a very great importance in the theory of value.*

- *According to the traditional value theory, the forces of demand and supply determine the price.*

- *Marshall was the first economist who analyzed the importance of time element in price determination. When the demand for a product rises or falls, its supply does not increase or decrease at the same time. Changes in supply depend on technical factors which take time to change.*

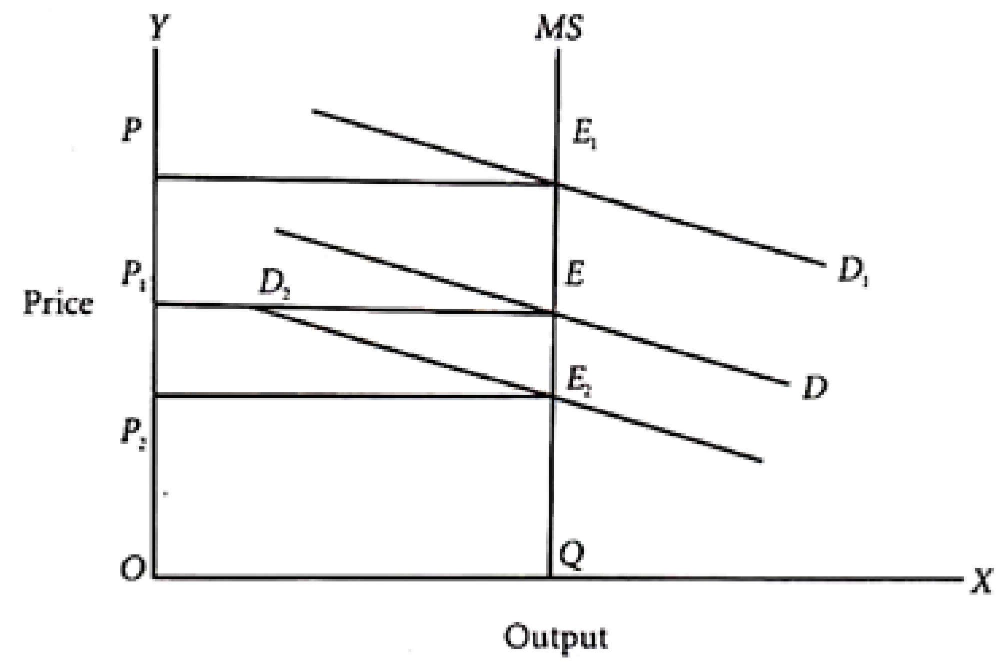
Time Element in the Determination of Value

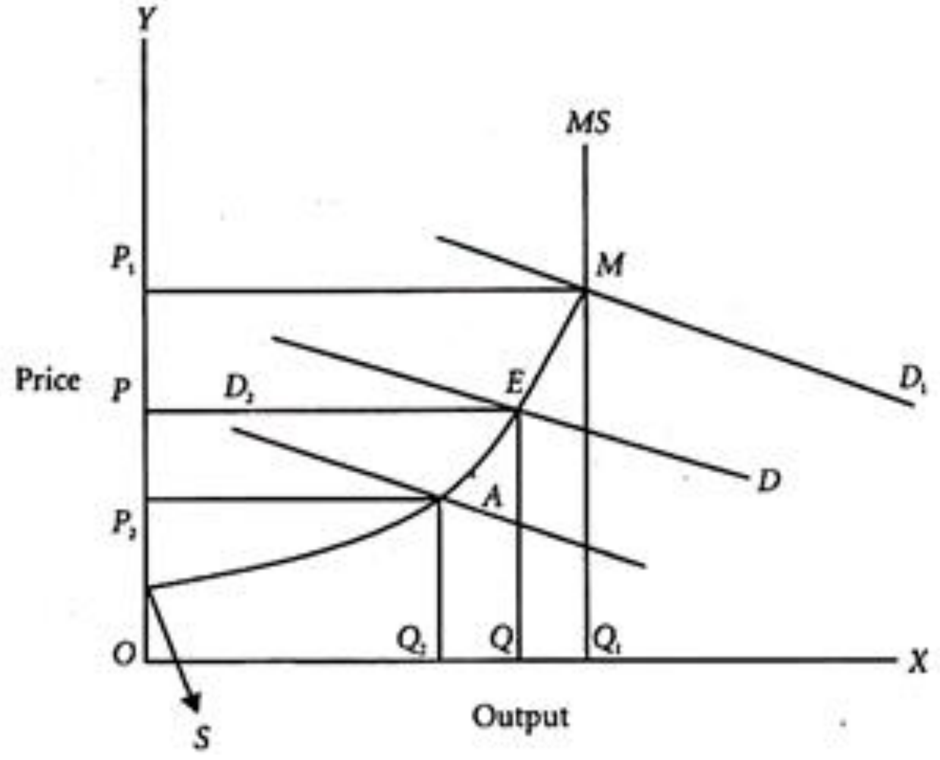
Marshall has divided the pricing of products into four time periods –

- *Very Short Period or Market Period*
- *Short Period*
- *Long Period*
- *Very Long Period or Secular Period.*

Very Short Period or Market Period

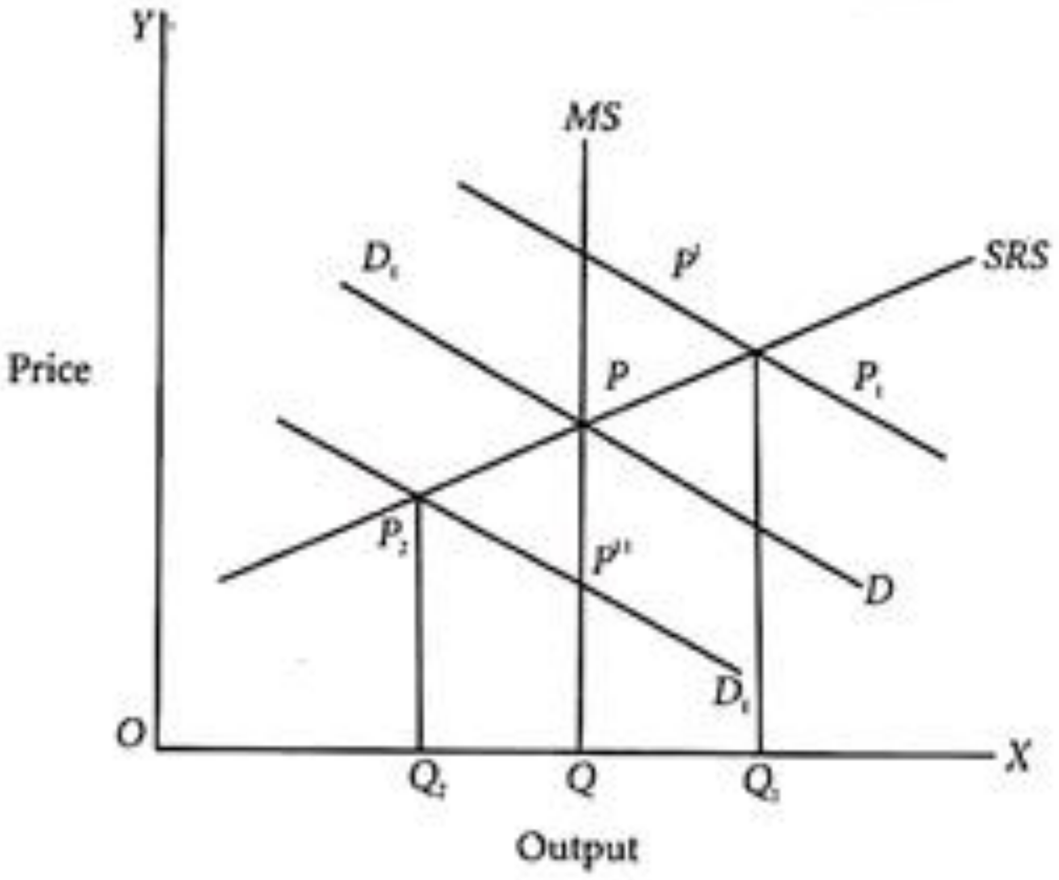
- *In which supply being fixed, price is determined.*
- *The time period is of a few days or weeks in which the supply of a commodity can be increased out of a given stock to match the demand.*
- *This is possible for durable goods. The time period for perishable commodities is only a day. For instance, if the demand for a vegetable increases, its supply cannot be increased on the same day*





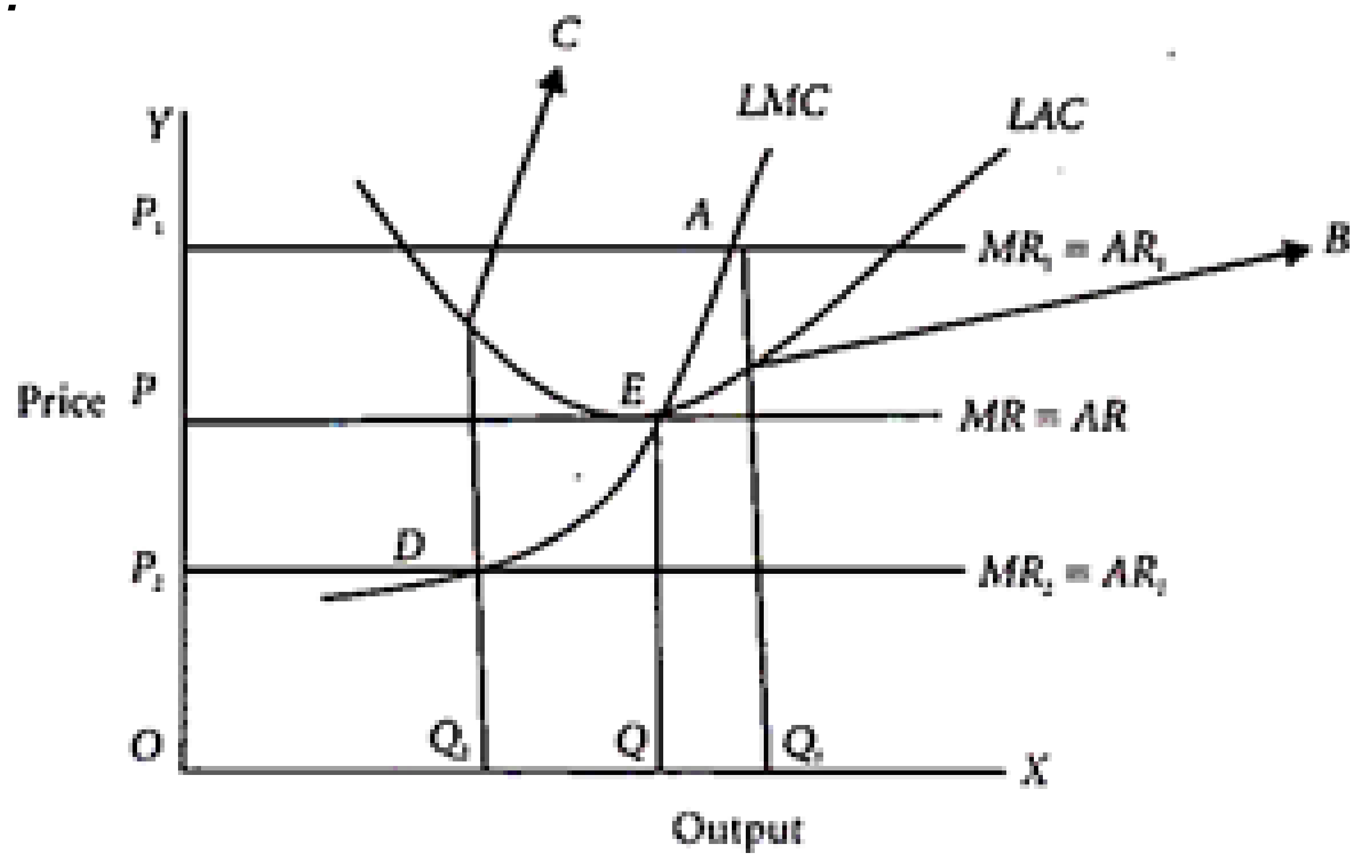
Short Period

- *Short period relates to a few months in which supply can be changed in accordance with demand. This is possible by changing the variable factors*



Long Period or Normal Period

- *The long period is of many years in which supply can be fully adjusted to demand.*
- *This is done by changing the fixed factors. During this period the old machines, equipment and plants can be replace by the new.*
- *New firms can enter the industry and old firms can be adjusted to demand in every possible way in the long-run.*



Very Long Period

- *The secular period is very long.*
- *According to Marshall, "It is a period of more than ten years in which changes in demand fully adjust themselves to supply."*
- *Since it is not possible to estimate the changes in demand due to changes in techniques of production, population, raw materials, etc. over a very long period, therefore, Marshall did not analyze pricing under the secular period.*

Market Price Vs Normal Price

Sr. no	Basis of difference	Market price	Normal price
1	Time	Short period	Long period
2.	Equilibrium between demand and supply	Temporary	Permanent
3.	Influence of demand and supply	Demand is more influential	Supply is more influential
4.	changes	Fluctuates quickly	constant
5.	Real and probable price	Real price	Probable price
6.	Kinds of goods	All goods	Only that goods which can be reproduced
7.	Forces of demand and supply	Influenced by temporary forces	Influenced by permanent forces
8.	Profit and losses	Abnormal profits or losses	Normal profits only

References

1. https://www.shareyouressays.com/knowledge/what-is-the-role-of-time-element-in-determination-of-price/95789
2. https://www.economicsdiscussion.net/articles/time-element-market-price-and-normal-price-with-diagram/13811

Thank You