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Topic: Time Element in Market

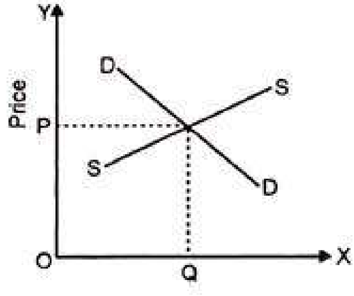
### 3. Long Period Market Price or Normal Price:

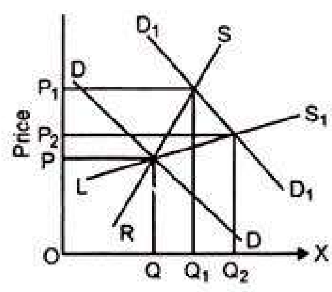
Long period market price is also known as the 'normal price'. Normal price is that price which is likely to prevail in the long run. In the words of Marshall— **"Normal or Natural value is that which economic forces would tend to bring about in the long run."** This price is determined by the equilibrium of demand and supply. For the equilibrium of firms and industry in the long-run it is essential that normal price should be equal to the long-run marginal cost and average cost.

During this period all factors of production in the input components of the firms in an industry become variable. As such, in the long-run, the firms can change the scale of production. The size of the firms and their plant capacity can be altered. Thus, in the long-run supply can be fully adjusted to the changing demand conditions.

In the long-run, therefore, the supply curve of an industry tends to become relatively elastic. In the long-run, demand firms may also enter the industry till full equilibrium position is reached. Hence, the long-run provides enough scope for a reasonable adjustment of supply in relation to demand. Therefore, the interaction between long-run supply and demand determines the long period equilibrium price.

**This can be shown in figure as follows:**



Long-run price is determined at the point of intersection between the long-run demand and supply curves as shown in fig. (E). In fig. (E) SS is the long-run supply curve which is a flatter curve indicating relatively elastic supply. DD is the long-run demand curve. OP is the equilibrium price at which OQ is demand as well as supply.

In the long-run, as compared to the demand force the supply force becomes a dominant factor in determining the equilibrium price. The long-run price is also described as the normal price. A comparison between short-run and long-run equilibrium price may be made as in figure (F). In this figure, the SR curve represents the short-run supply curve and $LS_1$ curve represents the long-run supply curve. The original demand curve is DD. Hence, OP is the original equilibrium price. Now, if the demand curve shifts to $D_1D_1$, the short-run equilibrium price rises to $OP_1$and short-run quantities of demand and supply amount to $OQ_1$, as the supply is adjusted to $QQ_1$.

However, with the same magnitude of demand change, the long-run changes to $OP_2$. The long-run supply is adjusted to $QQ_2$. Apparently, the long-run price change tends to be lesser than the short-run price change, and the supply adjustment in the long-run tends to be more adequate than in the short-run.

In short, it can be said that the Marshallian Time Analysis suggests that the degree of elasticity of supply tends to vary in relation to time. The supply tends to be relatively inelastic in the short-run and relatively elastic in the long-run. Again in short period, the demand factor has greater influence on price determination. Demand relates to utility. Thus, in short period, the utility of the commodity concerned has greater significance in the determination of its value i.e., value in exchange or price.

In the long-run, the supply factor bears greater influence upon the equilibrium price determination. The supply factor is based on the element of cost. Thus, in the long-run, consideration has greater significance in the determination of value.

Further, we may write that Marshall has said that the **"Actual value at any time, the market value as it is often called, is often influenced by passing events and causes whose action is fitful and short-lived than by those which work persistently. But in long periods these fitful and irregular causes in a large measure efface one another's influence, so that in the long run, persistent causes dominate values completely."**

**4. Secular Period:**

The Secular period is very long period. Regarding this period Marshall has said that—"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 make any analysis of pricing under the secular period."

**Conclusion:**

To conclude it can be said that the above analysis shows the importance of time element in the theory of price. It points out that of the two forces, demand and supply, which force may be considered as more important in the price determination depends on the time period. Generally, the shorter the time period, the greater will be the influence of demand on pricing ; and the longer the time period, the greater will be the influence of supply on the determination of prices of commodities.

**Differences between Market Price and Normal Price:**

**Market Price**

Market price is the real price which prevails in the market at any time.

**Normal Price:**

Normal price is a hypothetical price. It is an abstraction, a myth, something unreal and imaginary. It is like a mirage. The small waves in the sea are real but the calm water of the sea in the distant horizon looks like a mirage.

**In this connection the opinion of Stonier and Hague is as follows:**

"In practice, a long period normal price will never be arrived at. There will usually be a change in some of the conditions underlying the long period equilibrium before it has had time to come into being. The long-run like tomorrow never comes, and the price that rules in the market is always the market price rather than the normal price."