



A Perfectly Competitive Market

- A **perfectly competitive market** is one in which economic forces operate unimpeded.



A Perfectly Competitive Market

- A perfectly competitive market must meet the following requirements:
 - Both buyers and sellers are price takers.
 - The number of firms is large.
 - There are no barriers to entry.
 - The firms' products are identical.
 - There is complete information.



Perfect Competition


Perfect competition is a firm behavior that occurs when many firms produce identical products and entry is easy. Characteristics of perfect competition:

- **There are many sellers.**
- **The products sold by the firms in the industry are identical.**
- **Entry into and exit from the market are easy**, and there are many potential entrants.
- **Buyers (consumers) and sellers (firms) have perfect information.**



Price Taker

- A firm in a perfectly competitive market is said to be a **price taker** because the price of the product is determined by market supply and demand, and the individual firm can do nothing to change that price.



The Necessary Conditions for Perfect Competition

- Both buyers and sellers are price takers.
 - A **price taker** is a firm or individual who takes the market price as given.
 - In most markets, households are price takers – they accept the price offered in stores.



The Necessary Conditions for Perfect Competition

- Both buyers and sellers are price takers.
 - The retailer is not perfectly competitive.
 - A retail store is not a price taker but a price maker.



The Necessary Conditions for Perfect Competition

- The number of firms is large.
 - Large means that what one firm does has no bearing on what other firms do.
 - Any one firm's output is minuscule when compared with the total market.



The Necessary Conditions for Perfect Competition

- There are no barriers to entry.
 - **Barriers to entry** are social, political, or economic impediments that prevent other firms from entering the market.
 - Barriers sometimes take the form of patents granted to produce a certain good.



The Necessary Conditions for Perfect Competition

- There are no barriers to entry.
 - Technology may prevent some firms from entering the market.
 - Social forces such as bankers only lending to certain people may create barriers.



The Necessary Conditions for Perfect Competition

- The firms' products are identical.
 - This requirement means that each firm's output is indistinguishable from any competitor's product.



The Necessary Conditions for Perfect Competition

- There is complete information.
 - Firms and consumers know all there is to know about the market – prices, products, and available technology.
 - Any technological breakthrough would be instantly known to all in the market.



Demand Curves for the Firm and the Industry

- The demand curves facing the firm is different from the industry demand curve.
- A perfectly competitive firm's demand schedule is perfectly elastic even though the demand curve for the market is downward sloping.

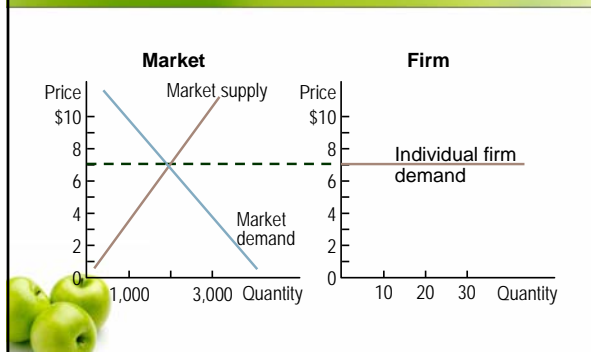


Perfect Competitors' Demand Curve

- The result is that **the individual firm perceives the demand curve for its product as being perfectly horizontal**.



Market Demand Versus Individual Firm Demand Curve



Market Supply and Demand and Single-Firm Demand

