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.

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 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.

- 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.

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

- 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