

# PERFECT COMPETITION

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# Intro.

- The term perfect competition refers to a theoretical market structure.
- Although perfect competition rarely occurs in real-world markets, it provides a useful model for explaining how supply and demand affect prices and behavior in a market economy.
- Under perfect competition, there are many buyers and sellers, and prices reflect supply and demand.
- Companies earn just enough profit to stay in business and no more. If they were to earn excess profits, other companies would enter the market and drive profits down.

# Key Takeaways

- Perfect competition is an ideal type of market structure where all producers and consumers have full and symmetric information and no transaction costs.
- There are a large number of producers and consumers competing with one another in this kind of environment.
- Perfect competition is theoretically the opposite of a monopolistic market.

## Cont.

- Since all real markets exist outside of the plane of the perfect competition model, each can be classified as imperfect.
- The opposite of perfect competition is imperfect competition, which exists when a market violates the abstract tenets of neoclassical pure or perfect competition.

# How Perfect Competition Works

- Perfect competition is a benchmark or ideal type to which real-life market structures can be compared. Perfect competition is theoretically the opposite of a monopoly, in which only a single firm supplies a good or service and that firm can charge whatever price it wants since consumers have no alternatives and it is difficult for would-be competitors to enter the marketplace.
- All firms sell an identical product (the product is a commodity or homogeneous).
- All firms are price takers (they cannot influence the market price of their products).

# Cont.

- Market share has no influence on prices.
- Buyers have complete or perfect information (in the past, present, and future) about the product being sold and the prices charged by each firm.
- Capital resources and labor are perfectly mobile.
- Firms can enter or exit the market without cost.

Thank you