Chapter 24

Perfect Competition

Economics, 7th Edition
Boyes/Melvin

Perfect Competition

There are 4 market structures that we will study.

A market structure defines how much competition there is in an industry.

They are:

Perfect Competition

Monopolistic Competition

Oligopoly

Monopoly

Characteristics of perfect competition:

- There are many, small sellers.
- The products are identical. (standardized)
- Entry into and exit from the market are easy, and there are many potential entrants.
- Buyers (consumers) and sellers (firms) have <u>perfect</u> information.

Price Taker

- A firm is a **price taker. No control over price of product.**

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

Minimizing Loss

- **Shutdown price:** the minimum point of the average-variable-cost (AVC) curve.
- **Break-even price:** A price that is equal to the minimum point of the average-total-cost (ATC) curve.
  - At this price, economic profit is zero.

The Long Run

- The **short run** is a timeframe in which at least one of the resources used in production cannot be changed.
- **Exit and entry are long-run phenomena.**
- In the **long run**, all quantities of resources can be changed.

The Predictions of the Model of Perfect Competition

- A *zero economic profit* is a *normal accounting profit*, or just *normal profit.*
- Firms produce where marginal cost equals price.

Efficiencies

- Productive efficiency: min ATC
- Allocative efficiency: P=MC
- Economic efficiency: both productive and allocative occur