E-notes Economics

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Topic - Features of Perfect Competition

Features of Perfect Competition :-

Perfect competition is a market structure characterised by following features →

1. Large number of buyers and sellers →

In a perfectly competitive market, there exists large number of buyers and sellers. Every firm in the market is so small that it cannot exert any influence on the price. Buyers also aim at buying the product at lower price.

Every economic unit behaves as a 'price-taker' or no one possess "market power."

2. Homogeneous Product :-

It means that buyers could not differentiate the product as well as

services sold by one firm from those of another.

That is to say, goods and services of each and every seller are perfect substitutes.

It is due to the homogeneity of the product that price is uniform or same to all.

3. <u>Free Entry and Exit :-</u>

Any firm is free to enter or leave the industry.

If it wishes, a new firm may join the industry, the existing firm will not put an obstacle.

However, new firms become interested in joining an industry mostly when some or most of the existing firms enjoy something more than normal profit.

Excess profit is thus an incentive on the part of a firm to join the industry.

Similarly, if some of firms incur loss they have the liberty to close down the business.

4. Perfect knowledge :-

It is assumed that all participants (consumers producers, input suppliers) have perfect knowledge and information regarding the conditions of the market.

If producers and buyers know costs, prices, product quality etc then there cannot be more than one price.

5. Perfect Mobility of Resources :-

Resources are completely free to move from one firm to another, not only geographically but also among jobs. That is mobility of resources is costless.