Perfect competition

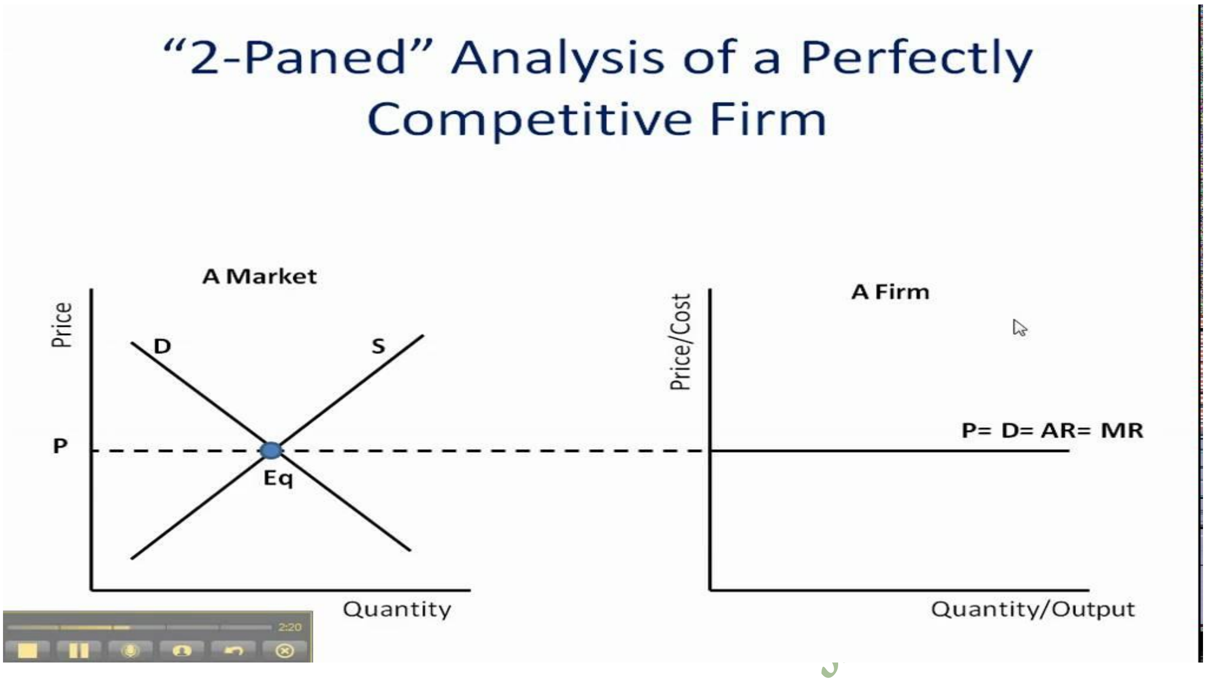
In economic analysis, various types of market structures are considered. At one extreme, there is monopoly, and at the other, pure competition. Between these two extremes lies a range of intermediate market structures collectively known as imperfect competition.

Features of pure competition

Pure competition is an idealized concept representing a market without monopoly power. The main characteristics of a purely competitive market are as follows:

1. Large number of buyers and sellers

In a purely competitive market, there are many buyers and sellers, so no individual can influence the price by their own actions. Sellers in this market are “price takers” and “quantity adjusters,” meaning they accept the prevailing market price. Consequently, the demand curve for an individual seller is a horizontal line parallel to the x-axis.



2.Homogeneous product

The products sold by different sellers in a purely competitive market are identical. This uniformity makes buyers indifferent about purchasing from one seller or another.

3.Freedom of Entry and exit of firm over a period of time

There are no barriers to entry or exit in the industry. New firms are free to enter the market when profits are high, while firms incurring losses can leave the market without restriction.

Pure competition distinguished from perfect competition.

Competition is considered pure when the conditions of a large number of buyers and sellers, homogeneous products, and free entry and exit are present. However, for competition to be "perfect," the following additional conditions must also exist:

1. Perfect mobility of factors of production

There must be no restrictions on the movement of resources such as land, labor, capital, and entrepreneurship. These resources should be able to move freely to areas offering higher rewards.

2. Perfect knowledge on the part of sellers and buyers

Both buyers and sellers should have complete knowledge of market conditions, including the price of commodities. Ignorance of market conditions would impair perfect competition.

3. Nil Transport cost

Producers are assumed to be located close to each other, so transport costs are negligible. This means the price of a commodity is not influenced by transportation expenses.