

Characteristics of Perfect competition

- large numbers of buyers and sellers
- homogenous product (all perfect substitutes)
- no barriers to entry or exit from this market
- perfect knowledge/information between buyers and sellers
- firms are profit maximisers (MC=MR)
- firms are price takers
- all firms are small

efficiency

- allocative efficiency** in both the short and long run, $P=MC$ and thus allocative efficiency is achieved.
- productive efficiency** ensuring the costs of production are as low as they can be
- dynamic efficiency** in perfect competition this will not be achieved.

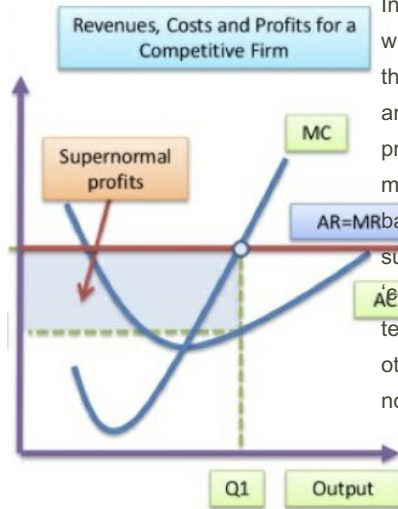
Assumptions of the model

- homogenous products
- perfect resource mobility
- free entry to entry and exit
- perfect / complete information
- large number of firms

limitations of the model

- unrealistic assumptions
- limited possibilities to take advantage of economies of scale
- lack of product variety
- waste of resources in the process of long-run adjustment
- does not make enough money to invest in R & D
- ignores market failures
- firms cannot expand that much
- consumers do not have variety

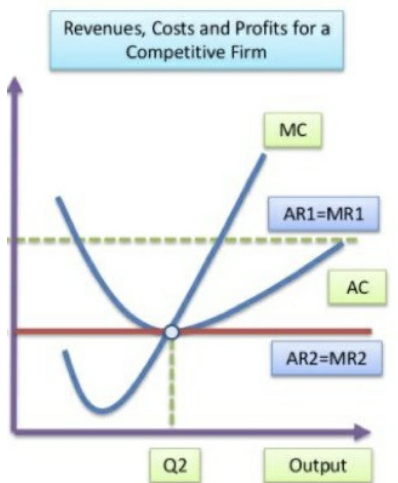
short-run perfect competition



short-run

only in the short-run, supernormal profits are achieved. It attracts new firms into the market

long-run perfect competition



long-run equilibrium

In perfect competition, no firm will make supernormal profits in the long run. This is because any short-term supernormal profits attract new firms to the market (since there are no barriers to entry). This means supernormal profits are 'competed away' in the long term — i.e. firms undercut each other until all firms make only normal profit.



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