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

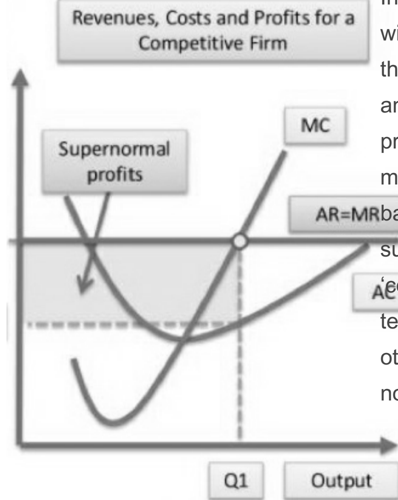
limitations of the model

- unrealistic assumptions

limited possibilities to take advantage of economies of scale	firms cannot expand that much
lack of product variety	consumers do not have variety

- waste of resources in the process of long-run adjustment
- does not make enough money to invest in R & D
- ignores market failures

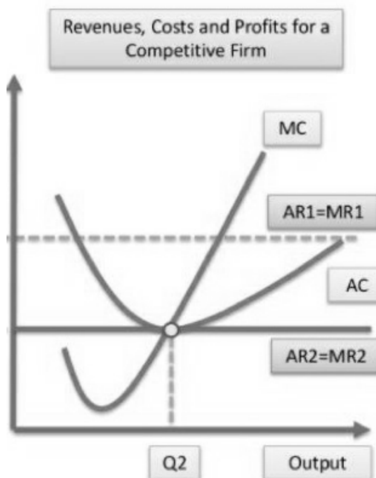
short-run perfect competition



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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