The requirements for the perfectly competitive market

Finance, Market

The modern businessenvironmentis characterized by an intense level of competitiveness. While this may not be good for the suppliers of products and services in the short-term, it is certainly good for the consumers because a high level of competition reduces the level of prices so that consumers can enhance their standards of living with the same purchasing power that they had before.

The requirements for the perfectly competitive market are related to the number of suppliers in the market, barriers to entry in that market, economies of scale, mobility of resources and homogeneous products. The market is recognized as perfectly competitive when the conditions related to these five aspects have been fulfilled.

Therefore a perfectly competitive market is characterized by a large number of suppliers, elimination of barriers to entry in that market, no significant economies of scale, mobility of resources and the homogeneousness of competing products and services. The Anti-trust law ensures that in every industry these conditions are maintained so that competitiveness is not compromised.

As mentioned before, competition is not good for the suppliers of products and services. This is because competition forces them to constantly reengineer their operations in order to reduce the cost of production or the cost of providing services.

As a result, they have to constantly innovate on their product lines whether it is in terms of differentiation or costleadership. Inrespectof both differentiation and cost-leadership, efficiency in resource allocation is created. In the perfectly competitive market, the suppliers have to ensure that they can get the maximum from investing the minimum.

However competition also forces them to maintain the level of quality in their products and services. Since a large number of suppliers operate in a perfectly competitive market, consumers will immediately boycott the supplier who is offering low quality and they will migrate to other suppliers.

In this manner, competition creates the framework for maximum efficiency in what to produce, how to produce and for whom to produce. That is why the anti-trust law has been formulated to correct departures from the perfectly competitive market.

When competitiveness has been compromised, it means that there is one firm which has more power than its competitors. In this case, there is the possibility of inefficiency in the form of the monopolistic firm offering lower quality products at higher prices because consumers do not have choices in this matter. The anti-trust law ensures that such inefficiencies do not occur.

References

McConnell, Campbell R., and Stanley L Brue. Macroeconomics. South western college pub. 2007.