

Characteristics of a perfectly competitive market structure

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Characteristics of a perfectly competitive market structure The four main characteristics of a perfectly competitive market are as follows: A large number of small firms, identical products sold by all firms, no barriers on entry or exit and perfect knowledge of prices and technology. These characteristics mean that a perfectly competitive firm is unable to exert control over the market, as a large number of perfect substitutes exist for the output produced by any given firm. The demand curve for a perfectly competitive firm's output is perfectly elastic. This means that a consumer will not buy a good or service if the price rises, due to not being a necessity. An example could be an airplane ticket since vacation travel is not an essential service. Freedom of entry into and exit out of the industry means that capital and other resources are perfectly mobile and that it is not possible to erect barriers to entry. Perfect knowledge means that all firms operate on the same footing, that buyers know about all possible perfect substitutes for a given good and that firms actually do produce identical products. A perfectly competitive market or industry contains a large number of small firms, each of which is relatively small compared to the overall size of the market. Ensuring that no single firm can exert control over price or quantity. If one firm decides to double its output or halt production, the market remains unaffected. Each firm in a perfectly competitive market sells an identical product. Essentially, this means that the buyers cannot discern any difference between the products, as there are no brand names or distinguishing features that differentiate products by firm. Thus every perfectly competitive firm produces a good which is a perfect substitute for the output of every other firm in the market. As such, no firm can charge a

different price than that received by other firms. Changing price would result in buyers switching to other goods that are perfect substitutes. Furthermore, perfectly competitive firms are able to freely enter or exit an industry, as they aren't restricted by government rules and regulations, start-up costs or other barriers to entry. Perfectly competitive firms don't incur high start-up cost or need government permits to enter an industry. Likewise it is not prevented from leaving an industry, as is the case for government regulated public utilities. Perfectly competitive firms are also free to acquire without delay and restrictions whatever resources they need e. g. Land and labour. Subsequently, as a result of perfect knowledge, consumers are completely aware of a firm's prices, such that one firm cannot sell its goods higher prices than those of other firms. Each firm also has information about prices charged by other firms, in order to avoid charging less or more of the market price. Perfect knowledge also extends to technology, so all firms have access to all production techniques, no firm can producer its output faster, better or cheaper than another firm.