Perfect Competition

Market Structure

- The term „market structure” relates to the number of market participants, their shares in this market and means of making decisions that determine prices, demand and supply.

Types of Market Structures

- **Demand side**
  - perfect competition (pure competition)
  - imperfect competition:
    - monopsony competition
    - oligopsony
    - monopsony
- **Supply side**
  - perfect competition (pure competition)
  - imperfect competition:
    - monopolistic competition
    - oligopoly
    - monopoly

Features of Perfectly Competitive Market (PCM)

- There are **many sellers** in the market. Each seller has a **very small market share** of total sales.

- The products sold in the market are **homogeneous**, which means that each seller's product is identical to that of other sellers. A homogeneous product is one that is **standardized**. One seller's product is a **perfect substitute** for that of any other seller.

- Buyers have **perfect information** on products sold by different sellers.

- There is **freedom of entry and exit** by sellers. This means there are no restraints preventing firms from entering the market, nor are the difficulties in ceasing operations.

Examples of Markets Close to PCM

- Agriculture:
  - potatos
  - beets
  - wheat

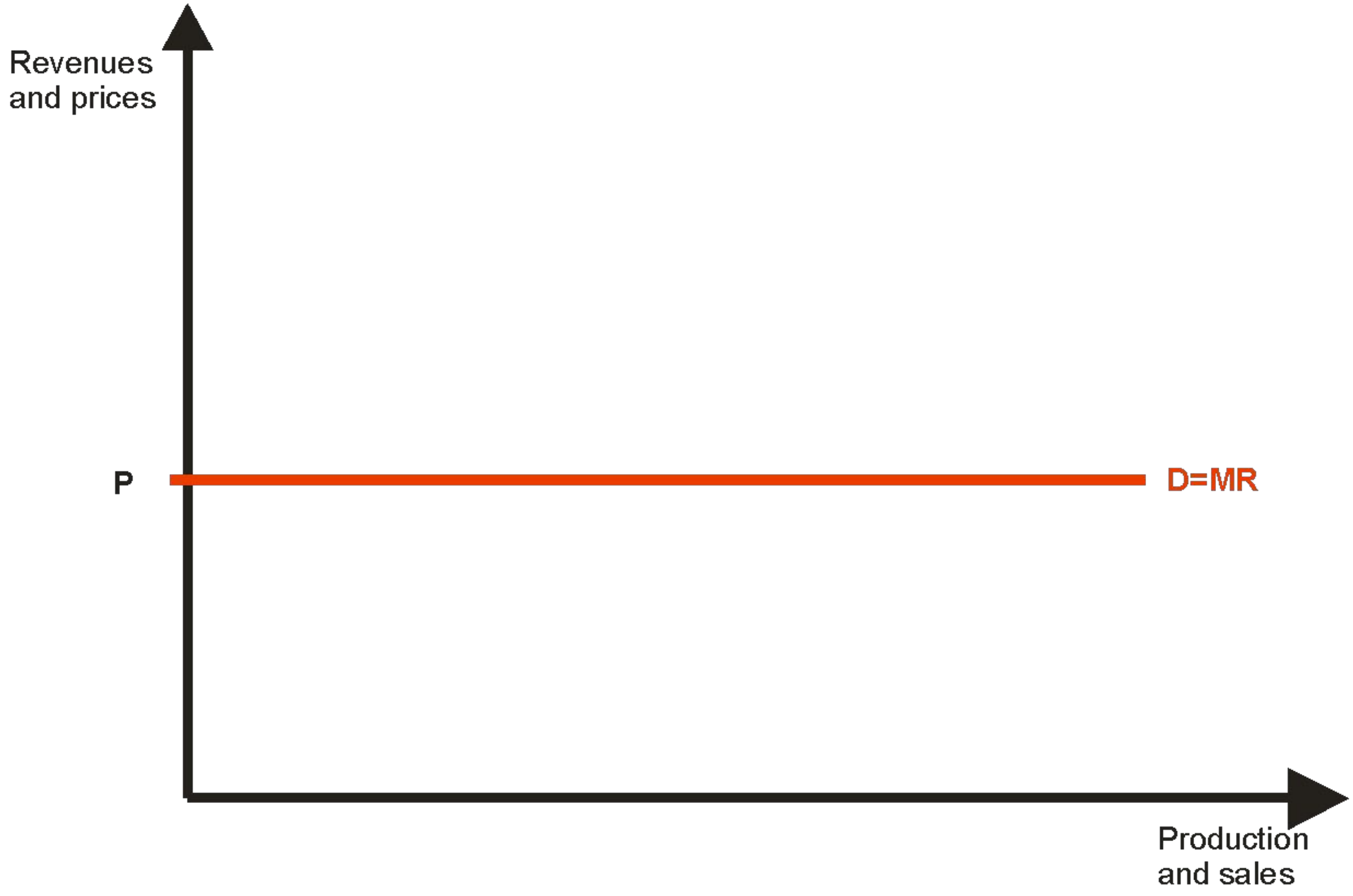
Price of Standardized Good in PCM

- Price does not depend on firm’s decisions (its production and supply). It is determined in the market. Every firm in PCM is **pricetaker**.

Means of Competing

- There is no price competition and non-price (e.g. marketing) competition. No seller in the market regards competing sellers as a threat to its market share.
- To achieve its purpose (maximize profit), firms can only change their volume of production.

Individual Demand Line



Marginal Revenue and Price

- In PCM marginal revenue equals price (determined in the market):

$$MR = P$$