Perfect Competition

Hello! My name is Alyceson-Grace Eke from the UNT Learning Center, and today we will be covering Perfect Competition.

Defining Perfect Competition
Perfect Competition is a market structure that embodies unrestricted competition where all parties have equal footing and power.

Characteristics of Perfectly Competitive Markets
Here are some indicators that you are dealing with a Perfectly Competitive Market:

1. Many sellers
2. Identical products are being sold
3. Everyone has perfect information - they know what they want and what it brings
4. No barriers to entry
5. Everyone is a Price-Taker
6. There is Zero Economic Profit
7. Produce where Marginal Revenue equals Marginal Cost

• Having many sellers means none of them have significant market power.
• Identical products suggest an increase in the responsiveness of buyers to a price change, AKA elasticity).
• Perfect Information means buyers will purchase what provides them with the highest utility.
• No barriers to entry means that in the long run, anyone can join or leave the market, which balances perfect competitions to zero profit. People come in to take profits and leave to cut losses.
• Being a price taker means no firm can control their own price, only the market can decide what is charged.
• Zero Economic Profit means, when you account for implicit and explicit costs, you have no economic profit, though you may have profits in the typical business world (which only accounts for explicit costs).
• All markets produce where MR = MC, but this is because if you produce any further, your costs outweigh your revenues, which no business wants to do. If you produce any less, however, you are not maximizing all the profits.

Graphs of Perfect Competition
Let's take a look at the graph for one firm.
As with every other curve, Marginal Cost appears to swoop slanted to the right, and Average Total Costs looks similar to a parabola, or a wide U. The unique aspect of the Perfectly Competitive short-run graph is the horizontal Demand curve. Ever wondered why it's horizontal? Here's why:

The horizontal Demand curve means the same thing as demand being perfectly elastic.

Remember that everyone is a price taker, so nobody has control over how much they charge. Since the market is the determinant for pricing, everyone ends up with the same price to charge. Therefore, demand will only be found at the market-set price point.

In terms of defining elasticity, there is a 100% response to even the slightest change in price because no one wants a price higher than the market-set point.

Questions
1. Do perfectly competitive firms have one firm, few firms, or many firms?
2. What Economic Profit is made in the long run?
3. Where do perfectly competitive markets produce? (What two things have to equal each other?)
4. What does a horizontal Demand curve mean?
5. Who decides how the price changes?

This video is designed to highlight the unique aspects of Perfectly Competitive markets. For mathematical scenarios and computations, stay tuned for the TutorTube on Microeconomic markets and their graphs. This should provide you with all the indicators that you are dealing with a Perfectly Competitive market. I hope this helps you. I can't wait to see you soon!