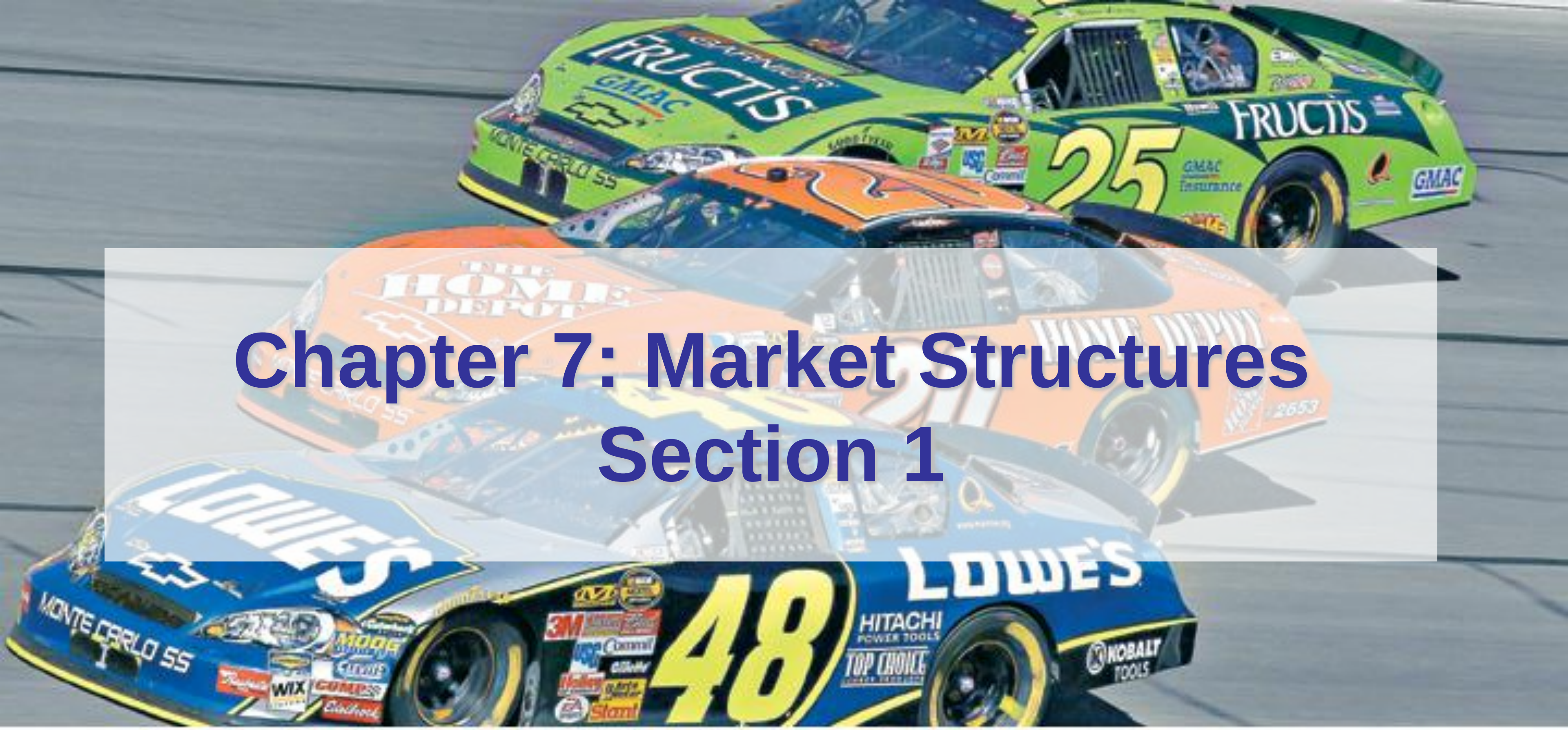

Chapter 7: Market Structures
Section 1

Prentice Hall

ECONOMICS

PEARSON

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Objectives

1. **Describe** the four conditions that are in place in a perfectly competitive market.
2. **List** two common barriers that prevent firms from entering a market.
3. **Describe** prices and output in a perfectly competitive market.

Key Terms

- **perfect competition**: a market structure in which a large number of firms all produce the same product and no single seller controls supply or prices
- **commodity**: a product that is considered the same no matter who produces or sells it
- **barrier to entry**: any factor that makes it difficult for a new firm to enter a market

Key Terms, cont.

- **imperfect competition**: a market structure that fails to meet the conditions of perfect competition
- **start-up costs**: the expenses a new business must pay before it can begin to produce and sell goods

Introduction

- What are the characteristics of perfect competition?
  - Many buyers and sellers
  - Identical products
  - Informed buyers and sellers
  - Free market entry and exit

Perfect Competition

- The simplest market structure is perfect competition, also called pure competition.
- A perfectly competitive market:
  - Has a large number of firms
  - Has firms that produce the same product
  - Assumes the market is in equilibrium
  - Assumes that firms sell the same product at the same price

Conditions of Perfect Competition

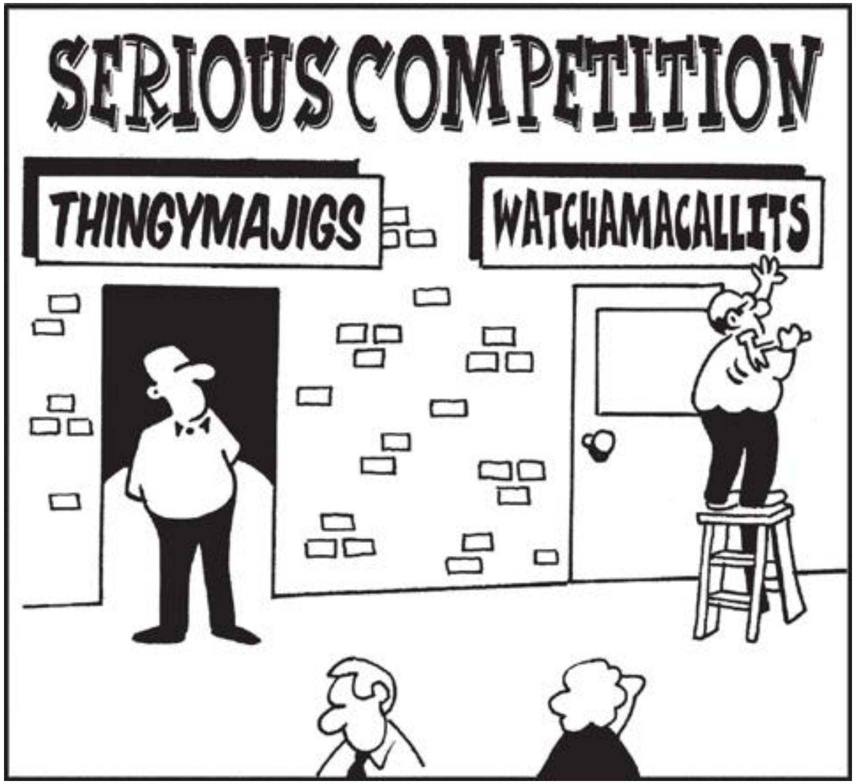
- There are only a few perfectly competitive markets in today's world because these markets must meet four strict conditions:
  - Many buyers and sellers participating in the market
  - Sellers offering identical products
  - Buyers and sellers that are well-informed about products
  - Sellers are able to enter and exit the market freely

Conditions, cont.

- Many buyers and sellers
  - Perfectly competitive markets must have many buyers and sellers.
    - No one person or firm can be so powerful as to influence the total market quantity or market price.

Conditions, cont.

- Identical Products
  - There is no difference in the products sold in a perfectly competitive market.
    - These commodities include things like low-grade gasoline, notebook paper, and sugar.

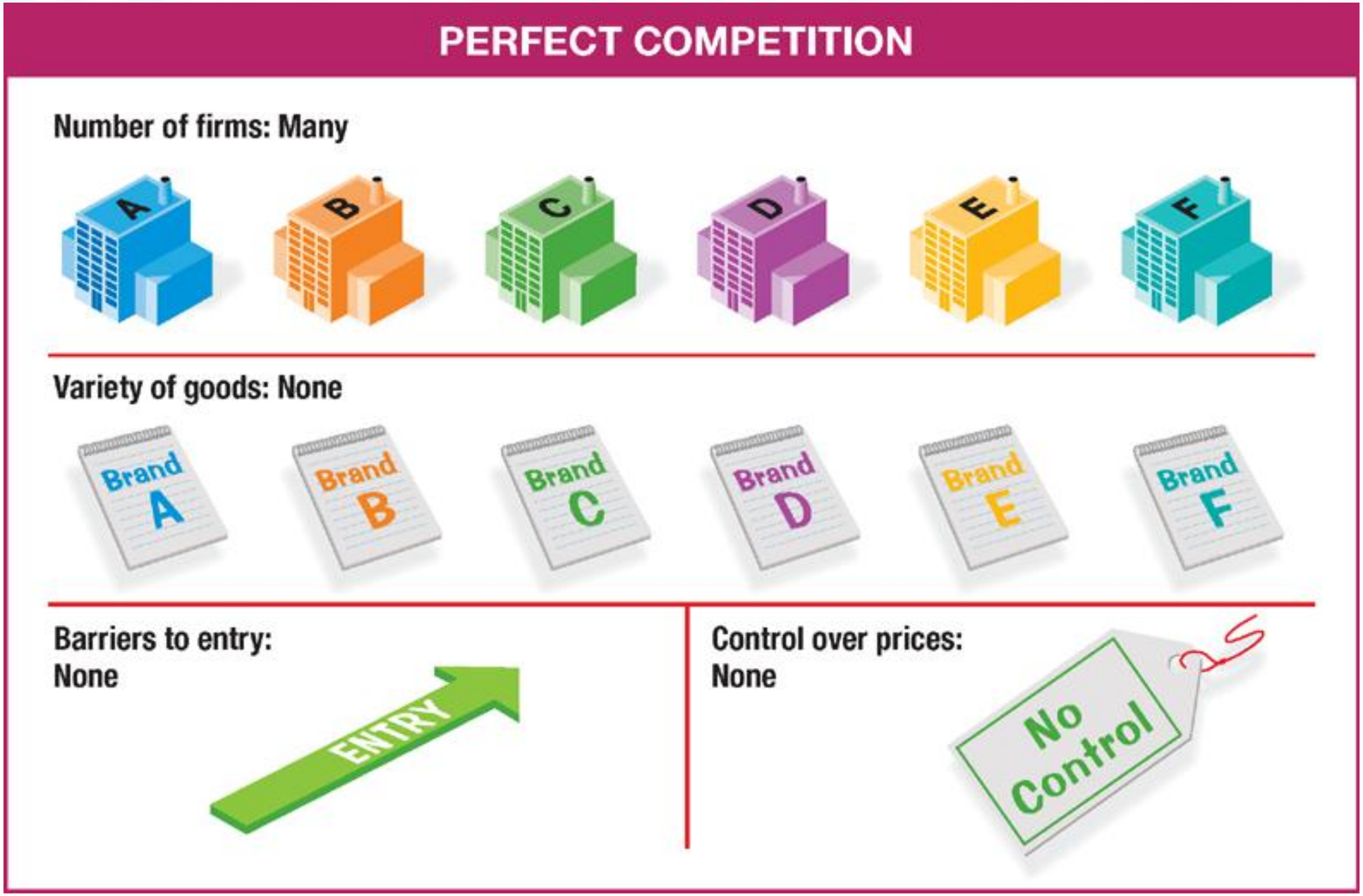


Conditions, cont.

- Informed buyers and sellers
  - Under conditions of perfect competition, the market provides the buyer with full information about the product features and its price.
    - Both buyers and sellers have full disclosure about the product.

- Free market entry and exit
  - It is very easy for sellers to enter and exit in a perfectly competitive market.
    - Usually they enter when a product is very popular and exit when the demand for that product decreases.

What is Perfect Competition?



Barriers to Entry

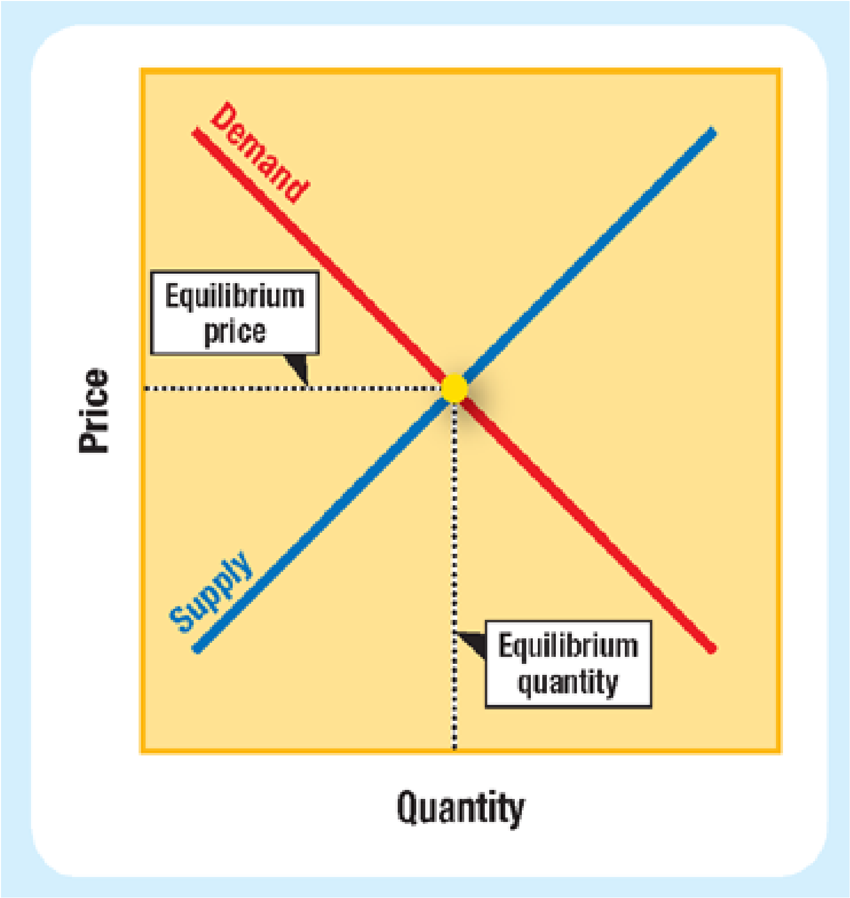
- Checkpoint: Which barrier to entry can be overcome by education or vocational training?
  - Imperfect competition can come about through barriers to entry.
  - Common barriers include:
    - **Start-up costs**: When start-up costs are high it is more difficult for new firms to enter the market. Therefore, markets with high start-up costs are less likely to be perfectly competitive.
    - **Technology**: Markets that require a high degree of technical knowledge can be difficult to enter into without preparation and study.

Barriers to Entry, cont.

- Landscaping presents no technical challenges and start-up costs are low. However, an auto repair shop requires advanced technical skills and the equipment needed to run the shop makes start-up costs another significant barrier to entry.

Prices

- Perfectly competitive markets are efficient and competition keeps both prices and production costs low.
  - In a perfectly competitive market prices correctly represent the opportunity costs of each product.
  - They are also the lowest sustainable prices possible.



Action Graph online

Output

- Checkpoint: How are output decisions made in a perfectly competitive market?
  - Since no supplier in a perfectly competitive market can influence prices, producers make their output decisions based on their most efficient use of resources.

Review

- Now that you have learned about the characteristics of perfect competition, go back and answer the Chapter Essential Question.
  - How does competition affect your choices?