Competitive and concentrated markets
• **Perfectly competitive** markets are only theoretical as there are no real markets that work like this.
  - A model of a perfect competition is how a market would work if certain conditions were satisfied
  - Understanding perfect competition makes it easier to understand what is going wrong with real life markets when have undesirable results
  - Some markets do approximate it enough so this theory can be applied to these markets (farming market in UK is example of possessing conditions of perfectly competitive market to a large extent)

In a perfectly competitive market the following conditions are satisfied/assumed:

- **Infinite no. of suppliers + consumers**
  - Each of the suppliers is small enough so no single firm/consumer has any ‘market power’ (can’t affect the market on their own e.g. even if they double their supply v unlikely this will actually shift supply curve overall)
  - Each firm is a ‘price taker’ not price maker = have to buy + sell at current market price as there is perfect info + homogenous product = have no choice about price of their product = face a perfectly elastic demand curve because any change in price causes demand to fall to 0 = horizontal demand curve

- **Consumers have perfect information** = perfect knowledge of all goods+prices in market
  - Every consumer decision is well informed - they know for chosen every firm in the market charges for its products as well as all details about those products

- **Producers have perfect information** = perfect knowledge of market/production methods
  - No firm has any type of low-cost production methods + every firm knows the prices charged by every firm (know the market price)

- **Products are identical = homogenous**
  - Consumers can always switch between products from different firms as all products are perfect substitutes for each other
  - No branding as this makes products seem different to others = buyers choose what to buy solely on price
  - Firms face exactly same costs of production

- **NO barriers to entry and NO barriers to exit**
  - New entrants can join v. easily, existing firms can leave equally easily

- **Firms are profit maximisers**
  - All decisions firms make are geared towards maximising profit
  - Sell at the market price

• The price in perfectly competitive markets is determined by forces of supply and demand i.e. the price mechanism

• Conditions for a perfectly competitive market ensure the rationing, signalling and incentive functions of the price mechanism work perfectly. In particular:
  - All firms are price takers = the market sets the price according to consumers’ preferences, rationing resources and signalling priorities