Perfect competition= illustrates an extreme form of capitalism, in it firms are completely subject to market forces. They have no power whatsoever to affect the price of the product. The price they face is that determined by the interaction of demand and supply in the whole market.

Key characteristics;
-many firms in the market
-unrestricted entry in and out of market i.e. freedom of entry, nothing to stop firms entering the market. Applies in long run as setting up a business takes time
-homogenous product-> no branding or advertising
-price taker
-horizontal demand curve=> price determined by interaction of demand and supply due to there being many firms producing smaller amounts of output which don't affect the market significantly
-examples include cabbages and carrots i.e. agriculture.
-producers and consumers have perfect knowledge of the market

ASSUMPTION VERY STRICT AND FEW IF ANY FIRMS MEET PC CRITERIA. Agriculture is closest to being perfect competition.

In short run; we assume numbers of firms in the industry cannot be increased, there is not time for firms to enter market.
Price; firms cannot charge above horizontal demand curve or it faces losing profit. PC firms are *price takers* after all.
Output; MR=MC is profit maximisation. Output not affected by price-> MR=price