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 how much **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 'secret' 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