

The model of perfect competition makes several key assumptions, including that there are many buyers and sellers in the market, the goods offered are largely homogeneous, information is perfect, and firms can freely enter or exit the market. “Perfect competition is a benchmark, or “ideal type,” to which real-life market structures can be compared. Perfect competition is theoretically the opposite of a monopoly, in which only a single firm supplies a good or service and that firm can charge whatever price it wants since consumers have no alternatives and it is difficult for would-be competitors to enter the marketplace” (Hayes, 2024). Based on these criteria, the goods most likely to be produced in perfect competition are potatoes and oats. There are many potato and oats farmers around the world offering similar products, buyers have full information, and there are low barriers to entering or leaving the industry.

By contrast, Coca-Cola and Pepsi are differentiated brands produced by near-monopolies. They offer unique products and benefit from strong branding and high customer loyalty. As a result, there are significant barriers to entering the soda market. Private physicians and stocks/bonds also violate the assumptions of perfect competition. Physicians offer differentiated services with imperfect information, have significant barriers to entry due to licensing, and cannot freely exit. Stocks and bonds vary widely in their attributes as well. For transportation, while the taxis in Lima seem to meet the criteria, local regulations and coordination costs often interfere with achieving theoretical perfect competition. Nonetheless, it remains one of the more competitive offerings we analyzed.

In conclusion, very few if any industries in the real world fully satisfy the stringent requirements for a perfectly competitive market structure. Differentiated goods that require large upfront investments tend to have the most barriers for new competitors. Commodity goods with basic features come closest to perfect competition, like potatoes and oats. But there still remain minor

frictions from lack of complete information and control. Understanding why perfect competition remains an abstract ideal provides helpful context to analyze real market dynamics.

Reference:

Hayes, A. (2024, January 29). Perfect Competition: Examples and how it works. Investopedia.

<https://www.investopedia.com/terms/p/perfectcompetition.asp>