Perfect Competitive Market Structure

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Perfect Competition

- Condition of Perfectly Competitive Market
- There are large number of buyers and seller
- The sellers sell homogenous good
- Each buyers and sellers have common and perfect knowledge
- There is no barriers in entry and exit in the industry
- Thus, Each buyer and Seller are both price taker

Industry and the Firm

- Determine the industry equilibrium condition
- Determine the demand curve faced by the firms parallel to x axis
- Determine the Profit Maximization Condition marginal revenue is equal to marginal cost
- $P = MC$ that is a form of $MR = MC$

Firms Making Profit

- Firms making Economic Profit
- In Diagram
- What is the market reaction if firm's makes economic profit

there is no barrier then more firms will enter the market supply curve will shift right and thus lower MR hence profit reduces

- What happens to the equilibrium price in the market

there is no net profit for the firms ie total cost is equal to revenue

- What happens to the demand curve faced by the firms

shifts up

- In Diagram

Firms Making Loss

- Firms making Economic Loss
- In Diagram
- What is the market reaction if firm's makes economic loss

there is no barrier then more firms will leave the market supply curve will shift left and thus higher MR hence loss reduces

- What happens to the equilibrium price in the market

increases

- What happens to the demand curve faced by the firms

shifts down

- In Diagram

Break even Point

- What is the Break Even Point intersection of atc and mc
- What is the Shutdown point. intersection of avc and mc
- What is the relevance of the fixed cost.

in short run fixed cost behave like a sunk cost so if avc< mc<atc ie firm is making a loss at equilibrium, then also it will continue in short run ,thus fixed cost acting as a sunk cost

Supply Curve and long-run Equil

- The Part of the MC above the shutdown point is the firm's supply curve. in short run
- What is the production surplus. Ar between MR marginal revenue
- What is the total surplus of the competitive market. = production surplus
- Long run equilibrium when the firm can choose the scale of operation

Industry Supply Curve

- Industry supply curve in constant cost Industry
- Industry supply curve in increasing cost Industry operation

Case

In the ministerial conferences of WTO meeting in Doha 2011, one of the major issues was "farm subsidies" offered to the farmers by the developed nation by their government. Developing countries like China, India, Brazil argued that these farm subsidies are anti competitive. They said that even if some of the developed countries adapted capital-intensive and knowledge-intensive technologies in agricultural production it is impossible for them to compete with the developed nation of North America and Europe in the international market for agricultural product only because of "farm subsidies". Pedro Camargo Neto a Brazilian consultant argued that the farm subsidy provided by the developed nation is similar to the barriers to the entry for the farms of the developing nation. During the Hong Kong ministerial conference in 2005 the developed nation committed to phase out farm subsidies by 2013 but however they failed to stick to the commitment and the negotiation collapsed during the Geneva meeting in July 2008.

Case Continued

- Is farm subsidy in the developed nation acts as an entry barrier for the farmers from the developing nations?
- Would it really help the farmers from the developing nations if the developed nations withdraw farm subsidy?
- Should the farm from the developing nation receive the subsidy?