Q1. What are the characteristics of a perfectly competitive market?
Ans: Perfect Competition: This type of market structure refers to the market that consists of a large number of buyers and also a large number of sellers. No individual seller is able to influence the price of an existing product in the market. All sellers in a perfect competition produce homogenous outputs, i.e. the outputs of all the sellers are similar to each other and the products are uniformly priced.
Features of Perfectly Competitive Market
i) A large number of buyers and sellers:There exist a large number of buyers and sellers in a perfectly competitive market. The number of sellers is so large that no individual firm owns the control over the market price of a commodity.
Due to the large number of sellers in the market, there exists a perfect and free competition. A firm act as a price taker while the price is determined by the 'invisible hands of market', i.e. by 'demand for' and 'supply of' goods. Thus, we can conclude that under perfectly competitive market, an individual firm is a price taker and not a price maker.

ii) Homogenous products: All the firms in a perfectly competitive market produce homogeneous products. This implies that the output of each firm is perfect substitute to others' output in terms of quantity, quality, colour, size, features, etc. This indicates that the buyers are indifferent to the output of different firms. Due to the homogenous nature of products, existence of uniform price is guaranteed.

iii) Free exit and entry of firms:In the long run there is free entry and exit of firms. However, in the short run some fixed factors obstruct the free entry and exit of firms. This ensures that all the firms in the long-run earn normal profit or zero economic profit that measures the opportunity cost of the firms either to continue production or to shut down. If there are abnormal profits, new firms will enter the market and if there are abnormal losses, a few existing firms will exit the market.

iv) Perfect knowledge among buyers and sellers:Both buyers and sellers are fully aware of the market conditions, such as price of a product at different places. The sellers are also aware of the prices at which the buyers are willing to buy the product. The implication of this feature is that if any individual firm is charging higher (or lower) price for a homogeneous product, the buyers will shift their purchase to other firms (or shift their purchase from the firm to other firms selling at lower price).

v) No transport costs: This feature means that all the firms have equal access to the market. The goods are produced and sold locally. Therefore, there is no cost of transporting the product from one part of the market to other.

vi) Perfect mobility of factors of production: There exists geographically and occupationally perfect mobility of factors of production. This implies that the factors of production can move from one place to other and can move from one job to another.

vii) No promotional and selling costs:There are no advertisements and promotional costs incurred by the firms. The selling costs under perfectly competitive market are zero.

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