

The Contestable Market Model













S



6

b







2











S















6

S











W

















2









b

a











S













Y





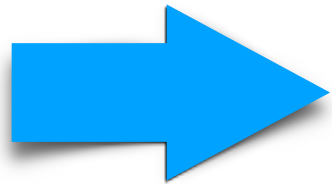






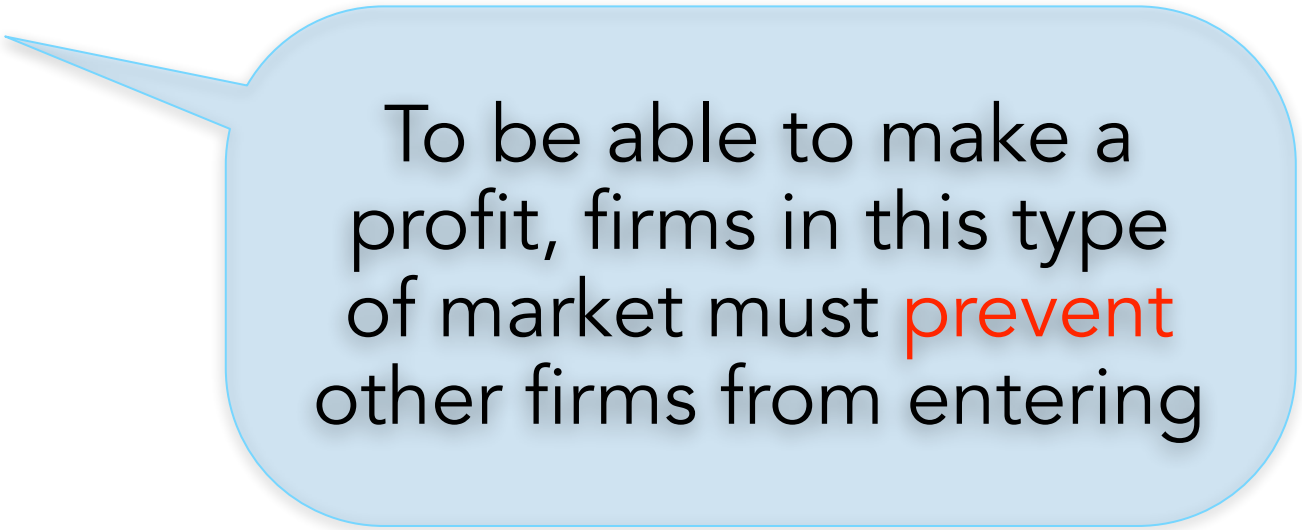


Since entry is free and exit is costless, the only way to prevent entry into a Contestable market is to make **zero** (only **normal**) profit to eliminate the incentive for new firms to enter.

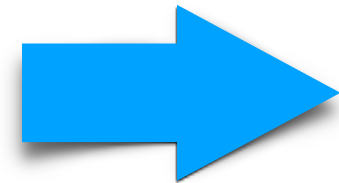


Entry is free and Exit is costless

To enter this market a firm **only** incurs **recoverable** costs, these costs do **not** represent a barrier to **enter** and will **not** represent a barrier to **exit** either



To be able to make a profit, firms in this type of market must **prevent** other firms from entering



Firms in the industry must charge $\text{Price} = \text{ATC}$ for zero profit

Even if the market has only **one** firm, the threat of entry will force that firm to
sell at **zero** profit, just as in a perfectly competitive market!

A yellow speech bubble with a tail pointing towards the top right corner. The bubble has a soft drop shadow.

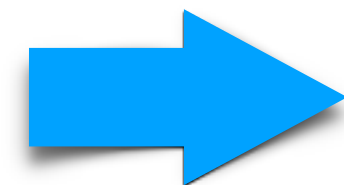
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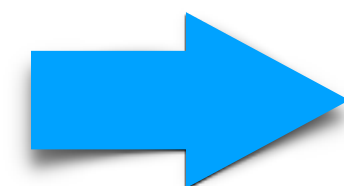


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P, MC, ATC, MR

