The Contestable Market Model

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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 Price = 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!

Just as in Perfect Competition!

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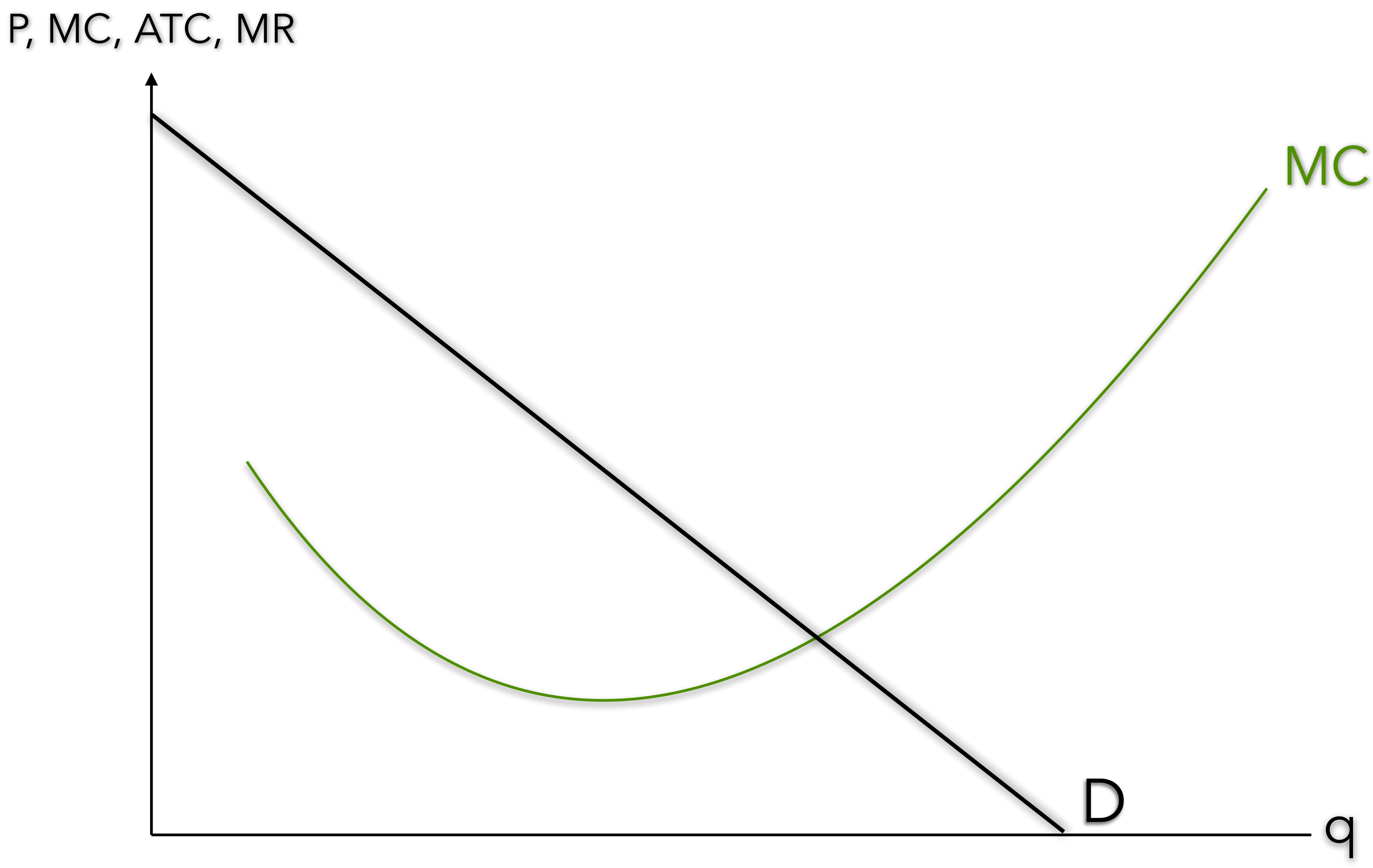
P, MC, ATC, MR
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