

The Contestable Market Model













S



6

b







2











S















6

S











W

















6









b

a











S



















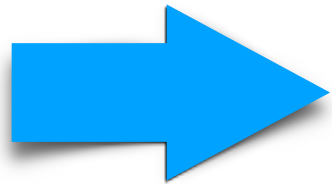






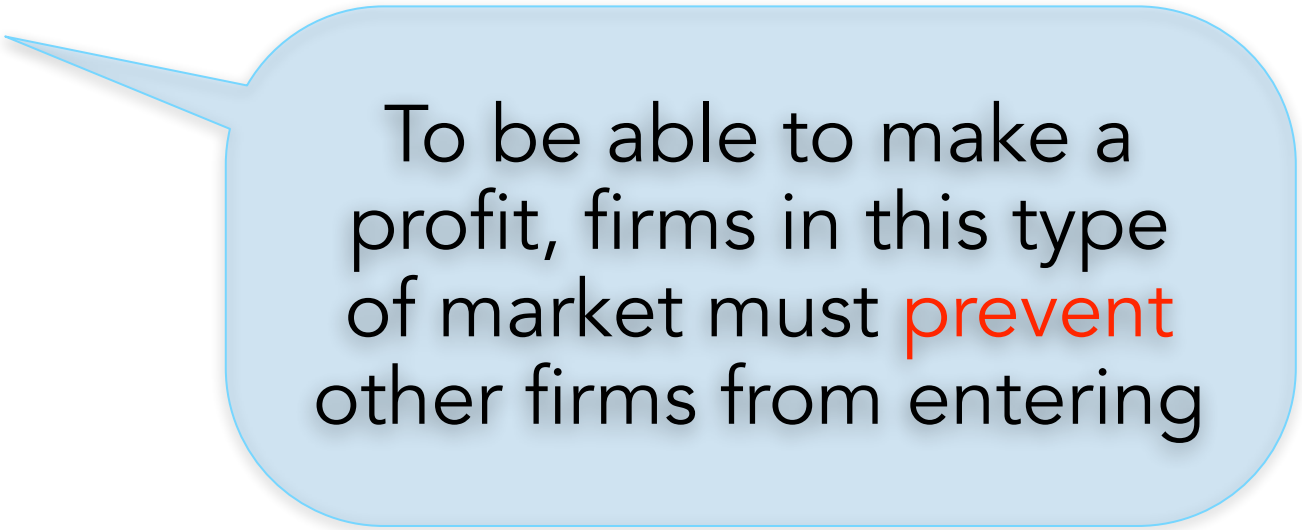


Since entry is free and exit is costless, the only way to prevent entry into a Contestable market is to make **zero** (only **normal**) profit to eliminate the incentive for new firms to enter.

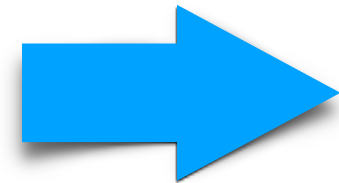


Entry is free and Exit is costless

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. Inside the bubble, the text "Just as in Perfect Competition!" is written in a black, sans-serif font, centered and arranged in three lines.

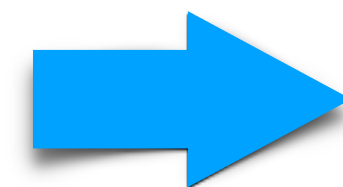
Just as in
Perfect
Competition!

A contestable market is defined as one in which there are no barriers to entry or exit

The Contestable Market Model

A contestable market is defined as one in which there are **no barriers to entry or exit**

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

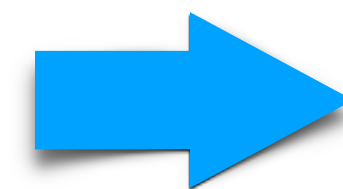


Entry is **free** and Exit is **costless**

Just as in
Perfect
Competition!

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

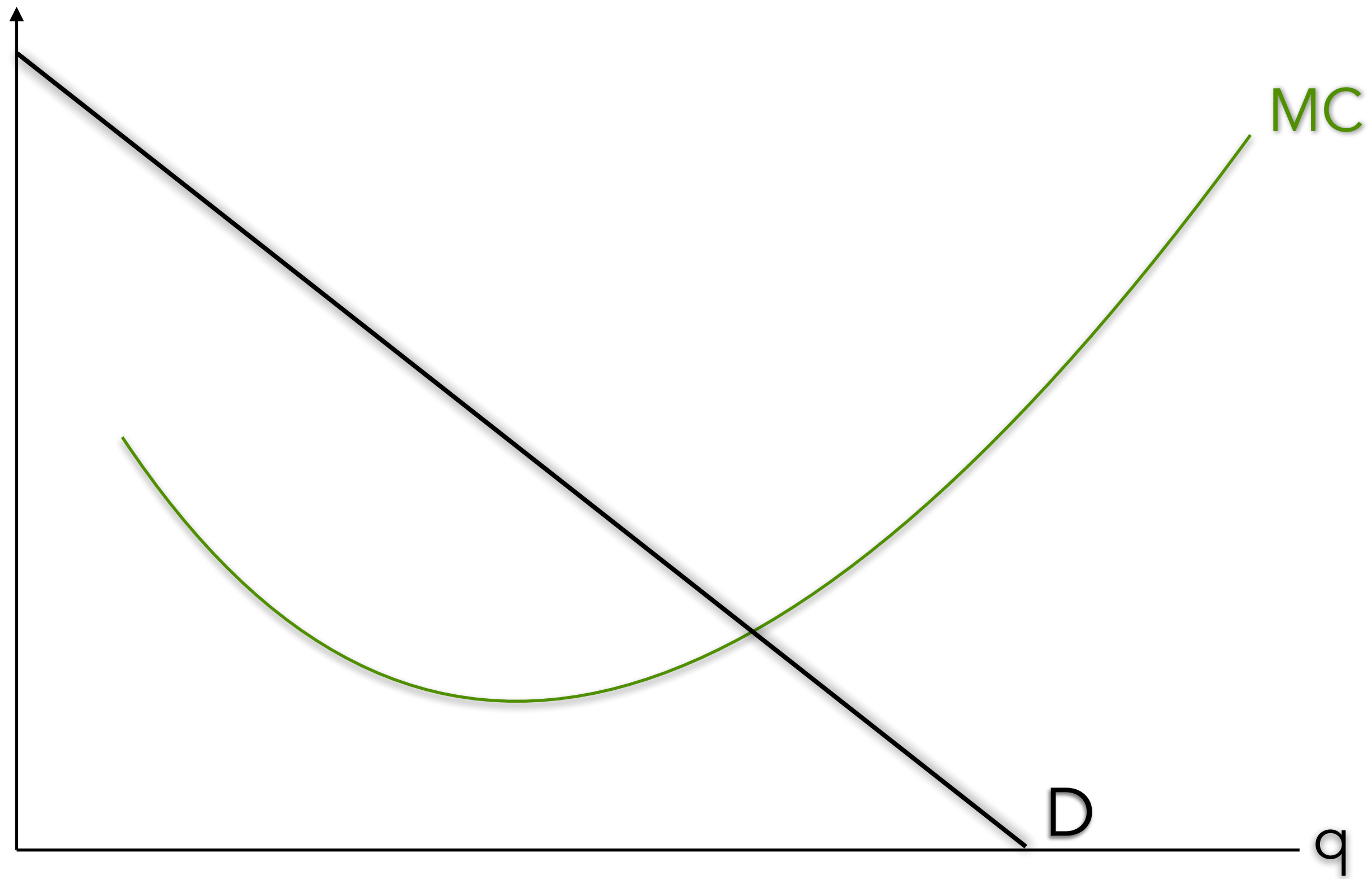
Since entry is free and exit is costless, the only way to prevent entry into a Contestable market is to make **zero** (only **normal**) profit to eliminate the incentive for new firms to enter.



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!

P, MC, ATC, MR



D

MC

q