
Chapter 11: Managerial Decisions in Competitive Markets

Perfect Competition

- ❖ Firms are price-takers
 - ~ Each produces only a very small portion of total market or industry output
- ❖ All firms produce a homogeneous product
- ❖ Entry into & exit from the market is unrestricted

Demand for a Competitive Price-Taker

- ❖ Demand curve is horizontal at price determined by intersection of market demand & supply
 - ~ Perfectly elastic
- ❖ Marginal revenue equals price
 - ~ Demand curve is also marginal revenue curve
 $(D = MR)$
- ❖ Can sell all they want at the market price
 - ~ Each additional unit of sales adds to total revenue an amount equal to price