



# Perfect Competition



# Assumptions of Perfect Competition

1. Homogeneous or identical products – every seller's product is the same as every other seller's product.
2. Many small independent firms
3. Easy entry & exit into the industry – all resources are perfectly mobile.
4. Firms, consumers, & resource owners have perfect knowledge of relevant economic & technical data.

The perfectly competitive firm is a price taker that sells its product at the market price. Why?

If the firm tried to charge more than the market price, it would lose all its business to its competitors who sell the identical product. The firm can sell as much as it wants at the market price, since it is very small relative to the market. The firm, therefore, has no incentive to charge less than the market price.