[Frequently Asked Questions]

Markets : Perfect Competition

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Paper No. & Title:	Paper – 101 Microeconomics – I
Unit No. & Title:	Unit – 5 (I) Markets: Perfect Competition
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Frequently Asked Questions

Q1. Define Perfect competition.

A1.

1. According to Mrs. Robinson, "Perfect competition prevails, when the demand for the output of each producer is perfectly elastic."

2. According to Leftwhich, "Perfect competition is a market situation in which there are many firms selling identical products with no firm large enough relative to the entire market to be able to influence market price."

Q2. Why does sellers are known as price takers in perfectly competitive market?

A2. In the market of perfect competition, there is infinitely large number of buyers and sellers therefore individual buyer or individual seller cannot influence the total demand or total supply of the product. The market price is determined only by market demand and market supply of the commodity, which prevails in the market and therefore producers and sellers are known as price taker in this market.

Q3. What do you mean by homogenous goods?

A3. In the market of perfect competition all the units of commodity are homogenous or identical, which means all the units of the commodity are same or equal, so far as quality, quantity, color, taste, shape, size, packing etc. are concerned.

Therefore it is not possible for producer to take different price and no buyer will get ready to give more price of the product. So product price in this market always remain the same.

Q4. Why does firms are earning only normal profit in perfect competition market?

A4. In the market of perfect competition, there is a complete freedom for the new firm to enter into the industry or any marginal firm to leave the industry. Entry of firms is possible in the condition of abnormal profit and the exit of firms is possible in the condition of abnormal loss in short run situation. This process is stopped at long run period when normal profits condition is prevailing; because of no marginal firm will have loss to move out of industry.

Q5. Explain about perfect mobility of factors of production.

A5. In the market of perfect competition there is a perfect mobility of factors of production as land, labor, capital, entrepreneur. This implies that the various factors of production move freely from one occupation to another occupation, from one place to another place and from one use to another use. Therefore all the units of a particular factor of production can get maximum and equal remuneration in the market.

Q6. Give reasons for no existence of transport.

A6. In the market of perfect competition there is a uniform price for the same product. Large number of sellers are there in the market, which produce and sell in local market, therefore transport of products are not possible. In other words, it is assumed that non-existence of transport cost is there. Therefore, once the price if the commodity is determined by the market forces, it remains the same (without transport cost) in entire market.

Q7. What are conditions of equilibrium for firm?

A7. According to Prof. Marshall in the market of perfect competition if following two conditions are fulfilled then firm is in equilibrium.

(1) Marginal revenue of the firm is equal to marginal cost of the firm.

(2) At the time of equilibrium marginal cost of the firm should be increasing. Marginal cost line of the firm intersects the marginal revenue line from the below (lower side) as shown in figure.

Q8. Which are three possible situations of firm for short run equilibrium?

A8. According to Prof. Marshall in the market of perfect competition during short run, three types of firms are getting existence.

- **a.** Few representative firms can earn abnormal profit.
- **b.** Few marginal firms are under loss situation.
- **c.** Most of the normal firm can earn normal profit.

Q9. What do you mean by long run?

A9. In economics, long run is a particular time period in which firm can change fixed as well as variable factors of production and thereby firm can change production and supply of the commodity. During long run in the process of price determination supply of the commodity is more effective than the demand for the commodity in the market.

Q10. Give summary of Perfect competitive market.

A10. Perfect competition market is one of the ideal markets. Therefore it is always be used to form new theories. It gives solution to present problems of the markets. Short run in perfect competition may be earning supernormal profits as it has AR > AC, earning losses as it has AC > AR or it may have normal profit as it has AR = AC at the equilibrium price, but in long run all the supernormal profits and losses get wiped out with free entry and exit of firms. Therefore all firms earn only normal profit at long run.