Summary:

We have studied that barriers to entry is a characteristic of an imperfect market. These barriers lead to monopoly and higher prices in the long run which in turn reduces the consumers' surplus and increases the producers' surplus. Bain's theory deals with limit price. A limit price (or limit pricing) is a price, or pricing strategy, where products are sold by a supplier at a price lower than the average cost of production or at a price low enough to make it unprofitable for other players to enter the market. It means that incumbent firm sets the price in such a manner that the profit of the potential entrant will become zero in the market if he enters and hence there is no potential entry in the market. This price is known as limit price.