Class: B.Com Part I

Subject : Business Economics and Environment.

Paper : I

Unit : IV

Topic : Market Concept and Classification Characteristics Perfect competition.

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Characteristics of Perfect Competitive market.

Perfect competition is a form of the market where there is a large number of buyers and sellers of a commodity. Homogeneous product is sold and its price is determined by the forces of supply and demand. An individual buyer or a seller has no control over price.

perfectly competitive markets exhibit the following characteristics:

① Large Number of Buyers and Sellers:
The number of buyers is so large that the demand of an individual buyer is only a small fraction of the market demand for a commodity. The number of sellers is so large that the supply of an individual seller ie firm is only a small fraction of the market supply. It implies that no matter an individual buyer increase demand or decreases, market demand remain unaffected. Each buyer buys so little and each seller sell so little that none of them is in a position to influence the price in the market.

2. Perfect knowlege:
There is perfect knowledge, with no information failure or time lags in the flow

of information. Knowledge is freely available to all participants, which means that risk taking is minimal and the role of the entrepreneur is limited.

③ Help in Taking Rational Decision:

Given that producers and consumers have perfect knowledge, it is assumed that they they make rational decisions to maximise their self interest - consumers look to maximise their profits.

④ Homogeneous Product:

Here all seller sell completely identical or homogeneous goods. Homogeneous products refer to those products which are identical in quality, shape, size, colour design packing etc. They are perfect substitutes from the buyer's point of view and their cross-elasticity is infinite. No seller can charge a price even slightly above the ruling market price.

⑤ Free Entry and Exit of the firm:

There are no barriers to entry into or exit out of the market. A new firm is free to enter ~~e~~ the Industry and an existing firm is free to leave it. The entry and exit of the firms is possible only in the long period not in the short period.

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(6) Perfect Mobility

Factors of production are perfectly mobile. They will move to that industry where they get high price. Accordingly, uniform factor price prevails in the market.

(7) Single Price of Commodity:

Single price of a commodity prevails in the market. Since the products are homogeneous, no seller can charge a price even slightly above the ruling market price because if he do so, He will lose all his customers.

(8) Free Trade Policy:

There is no governmental intervention in the market, Tariffs, subsidies, rationing of production or demand etc. are ruled out.

(9) Price Taker:

No single firm can influence the market price, or market condition. The single firm is said to be a price taker, taking its price from the whole industry. The single firm will not increase its price.

(10) No Externalities:

There are assumed to be no externalities that is no external cost or benefits to third parties not involved in the transaction