3.7 Perfect Competition

Name: ____________ Class: ________ Date: __________ **Total: 9 marks**

KEY WORDS perfectly competitive 完全竞争 • perfectly competitive market 完全竞争市场 • price taker 价格接受者 • economic profit 经济利润 • entry 进入

Objective

Build the skills to answer exam questions on **perfect competition**.

You must be able to:

- list the characteristics of a **perfectly competitive market** 完全竞争市场
- explain why a competitive firm is a **price taker** 价格接受者 with $P = MR$
- explain how entry and exit drive long-run equilibrium to $P = MC = \min ATC$
- explain why perfect competition achieves **productive** and **allocative efficiency**

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Characteristics

Many firms, identical products, free entry and exit, and perfect information.

■ Price taker

Each firm is too small to affect the price, so it faces a **perfectly elastic (horizontal)** demand curve at the market price, with $P = MR$.

■ Long-run equilibrium

Entry and exit push the market to $P = MC =$ minimum ATC, where firms earn **normal profit** — both **productively** (min ATC) and **allocatively** ($P = MC$) efficient.

2 Practice

2.1 List two characteristics of a perfectly competitive market. [2]

2.2 State why a competitive firm is a price taker. [1]

2.3 State the long-run profit level in perfect competition. [1]

3 Exam-style questions

3.1 A perfectly competitive firm's demand curve is [1]

- **A** downward-sloping
- **B** perfectly elastic (horizontal)
- **C** vertical
- **D** upward-sloping

3.2 In long-run equilibrium, a competitive firm produces where P equals [1]

- **A** $MC =$ minimum ATC
- **B** a value above ATC
- **C** a value below AVC
- **D** a point where $MR > MC$

3.3 A competitive firm sells at the market price of $10.

(a) State its marginal revenue. [1]

(b) State whether it can raise its price above $10, and why. [1]

(c) State its long-run economic profit. [1]

Solutions

2.1 any two of: many firms, identical products, free entry and exit, perfect information.

2.2 it is too small to affect the market price, so it takes the price as given.

2.3 normal profit (zero economic profit).

3.1 **B**.

3.2 **A**.

3.3 (a) \$10 (equal to the price). (b) no — products are identical, so buyers would switch to rivals. (c) zero economic profit (normal profit).