**Perfect Competition**



**To look at the different market structures that exist.**

**To look at the features of a perfectly competitive market**

**To look at the revenue and cost curves of a firm operating in a perfectly competitive market.**

**Look at the profitability of firms operating under conditions of perfect competition in the short-term and the long-term.**

1. What is a market structure**?**
2. On the line below identify the different types of market structure.

Many Firms One firm

1. In order to get a better understanding of the Perfect Competition market structure we need to look at a market. A good example of a perfectly competitive market is the FOREX or foreign currency market.

In the table below you need to identify the foreign currency trader and the price that they charge for a for 1 GBP in US dollars.

|  |  |
| --- | --- |
| Firm | Price |
| **1.** |  |
| **2.** |  |
| **3.** |  |
| **4.** |  |

* 1. In what way does the market for foreign currency **resemble** that of a perfectly competitive market?
  2. In what way does the market for foreign currency **not resemble** that of a perfectly competitive market?
  3. If we firstly look at the market situation in a perfectly competitive industry. The market price and the output of the industry are determined by:-
  4. The individual firm in the perfectly competitive industry will take the market price as dictated by the forces of and charge that price. These firms are known as .
  5. Complete the diagram below to illustrate how prices and output are determined in a perfectly competitive market. (This is the situation in the short-run)

Price Price

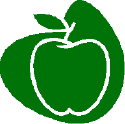
**Industry**

**firm**

Output Output

* 1. Firms operating under conditions of perfect competition are faced with what type of demand curve?
  2. Explain why firms operating under conditions of perfect competition are unlikely to charge a different price to that of the market.
  3. What types of profits are made in the short-run in perfect competition?
  4. The above situation is one that arises in the short-term. In the long-term other firms see that profits are being made and therefore

.

* 1. Illustrate the impact of this move on the diagram below. (The long-term situation in perfect competition)

**Price**

Industry

### Output

**Price**

### Output

Firm

* 1. What type of profits are made in the long-run and why?
  2. This is the case because the firm can only survive if
  3. Illustrate the demand and supply curve for the firm in the perfectly competitive industry on the diagram below.

### Firm

**Price**

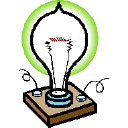
### Output

**Perfect Competition 2**



To look at the conditions under which a firm operating in a perfectly competitive market would be forced to shut-down in the short-run.

Study some applied examples of firms operating under conditions of perfect competition and observe how well they match the theory.

1. In the short-run firms only need to cover what type of costs?
2. Is this also true for the long-run? Explain your answer.
3. On the diagram below illustrate the short-run and long-run **shut-down conditions** for a firm in a perfectly competitive market.

Price

Output

1. On the diagram below illustrate a firm in a perfectly competitive market and explain how this situation has arisen.

**Price Price**

Industry

Firm

### Output Output

5. Now read the article relating to the road haulage industry and answer the following questions.

1. What does the article suggest about the level of profits in the industry?
2. Illustrate the impact on the firm if the government decided to go ahead and cut road tax.
3. Using the theory and a diagram illustrate the likely impact of a reduction in fuel tax on the industry as a whole. You should mention barriers to entry in your answer.

**Price**

Industry

**Price**

firm

### Output Output

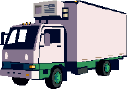
1. Do firms in the road haulage industry have the ability to brand their products? If so does this mean that the industry is actually monopolistically competitive?

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1. Are the haulage firms price-takers or price-makers? Explain your answer.
2. Explain and illustrate the impact on the industry if firms are not able to cover their costs in the long-term.
3. To what extent would you regard the road haulage industry as perfectly competitive?

**Price**

Industry

**Price**

firm

### Output Outpu