

# PERFECT COMPETITION

## Chapter 7 Section 1

Intro - Why isn't buying a car as simple as buying milk?

# Which of these products has a more competitive market?

- Tomatoes
- Cars
- Electricity
- Notepaper
- Water
- Dairy Farms
- Baseball Teams
- Kitchen Appliances
- Fast Food

**Arrange these items in a continuum from those that have the greatest to those that have the least competition within their market.**

# Perfect Competition

▣ Factors of a perfectly competitive market:

▣ Many buyers and sellers

- No one can affect market price

▣ Identical Products

- Qualifies as a commodity

▣ Informed Buyers and Sellers

▣ Free Market Entry and Exit

▣ Why do some of these products not qualify as a perfectly competitive market?

•Tomatoes

•Cars

•Electricity

•Notepaper

•Water

•Dairy Farms

•Baseball Teams

•Kitchen Appliances

•Fast Food

# Perfect Competition

- Also called “pure” competition is the simplest market structure.
  - A large number of firms are all selling the same exact product.
  - No firm is big enough to influence the price across the entire market.
  - Price is set by equilibrium point.

# Price

- ▣ Price in a perfectly competitive market is set by the equilibrium point.
- ▣ A firm will have more success if they can lower the price, thus attracting more buyers.
  - Gasoline
- ▣ How can they afford to lower the price of their product?
  - What must they do in order to lower the price and remain profitable?

# Barriers to Entry

- ▣ Factors that make it hard for other firms to enter into the market are called barriers to entry.
  - This leads to imperfect competition, the staple of this free market system.
- ▣ **Start-Up Costs**
  - How can they vary from place to place?
- ▣ **Technology**
  - Why is this a factor?

# So what qualifies?



Perfect Competition?

# What about this?





What about...



# CH. 7 SEC 2 – MONOPOLIES!

Where things start to get a little  
cutthroat

# Let's be honest

- ▣ If you had the chance to monopolize an industry, would you do it? Why or why not?
  - Even if it meant that you crushed your competition and put thousands out of business?
  
- ▣ What is **market power**?

# Monopolypolypolypoly

- ▣ Get into groups of two!
- ▣ List 3 monopolies found within every school.
- ▣ List 2 monopolies that come into your home.
- ▣ List the benefits and drawbacks of each of these listed items.

# Monopoly!

- ▣ Why are some monopolies good while others are considered bad?
- ▣ When a monopoly is in place, what does the government do? Why?
- ▣ Are the results always beneficial?

# Important Concepts!

## ▣ Economies of Scale!

- Producer's average costs per unit falls as total output rises.
- A large firm can often produce a good for much cheaper unit cost than a small firm.

# Economies of Scale

- ▣ The Norton Foods Corporation, for example, can produce a jar of strawberry jam for much less than Mrs. Beardsley, who produces a hundred jars a year for her family and friends.
- ▣ Norton foods buys glassware, sugar, strawberries, labels, etc. at wholesale prices with quality discounts. Also, they have time-saving efficient equipment.
- ▣ Mrs. Beardsley makes jam only once a year, it doesn't make sense for her to buy a lot of specialized equipment.

# Monopolies that Are Allowed:

- ▣ What is one kind of monopoly that the U.S. government generally permits?
  - **Natural Monopoly** - more efficient and effective when one company controls it. (Public Water)
  - **Government monopoly** - Monopoly created by the gov't
    - ▣ Patent/franchise – limits entry of other firms, no competition.
  - **Professional Sports Teams** – control over ticket prices, locations, number of teams, etc.



# Price Discrimination

- ▣ **Price Discrimination** is the practice where businesses divide consumers into different subgroups and charge different prices for each group. This is to maximize profits.
  - For example – If I open a restaurant, I would charge full price for adults. I might give senior discounts to encourage older customers to spend money, and I may give discounts for children to encourage families to attend.

# Exit Question -

- ▣ Why does the government ban most monopolies in the United States?
  - Does this affect all countries?