Perfect Competition

Economics

The benchmark model, and what it assumes.

Assumptions and consequences.

Assumes

- Many buyers and sellers
- Identical products
- Free entry and exit
- Perfect information
- No transaction costs

Implies

- Firms are price takers
- Price equals marginal cost
- Normal profit in the long run
- Productive and allocative efficiency
- No advertising — nothing to differentiate

> Almost no real market satisfies all five assumptions. The model matters because it defines what efficiency would look like.