








AQA Economics AS-level **Microeconomics**

Topic 4: Competitive and Concentrated Markets

4.3 Competitive markets

Notes



-  A **perfectly competitive market** has the following characteristics:
- Many buyers and sellers
 - Sellers are **price takers**
 - Free entry to and exit from the market
 - Perfect knowledge
 - Homogeneous goods
 - Firms are short run profit maximisers
-  In this market, price is determined by the interaction of demand and supply.
-  In a competitive market, profits are likely to be lower than a market with only a few large firms.
-  This is because each firm in a competitive market has a very small market share. Therefore, their market power is very small.
-  If the firms make a profit, new firms will enter the market, due to low barriers to entry, because the market seems profitable.
-  The new firms will increase supply in the market, which lowers the average price. This means that the existing firms' profits will be competed away.
-  In the short run, firms will be able to make a lot more profit, than in the long run where profits are competed away.

