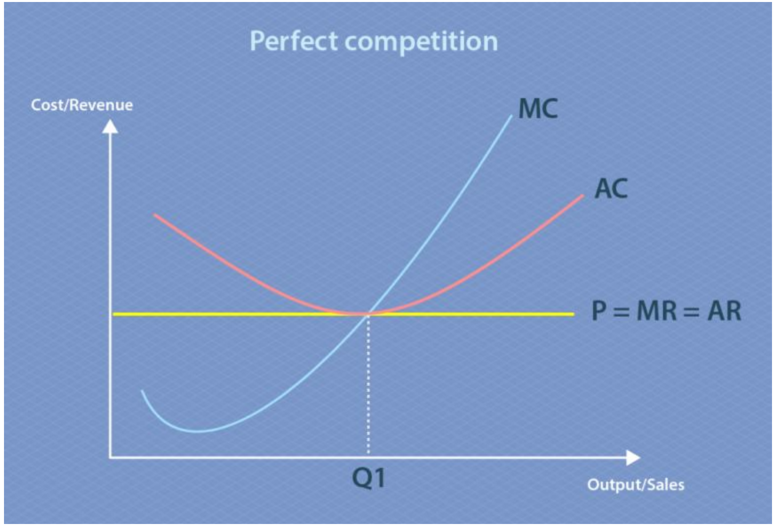
Competition

SAFA Financial Literacy Lesson

Perfect Competition

Perfect competition is an idealized state of a free market in which no individual consumer or buyer dictates the price, meaning that there are no monopolies. There are a few general characteristics of this type of market:



Characteristics of Perfect Competition

1. Numerous suppliers and consumers of a product

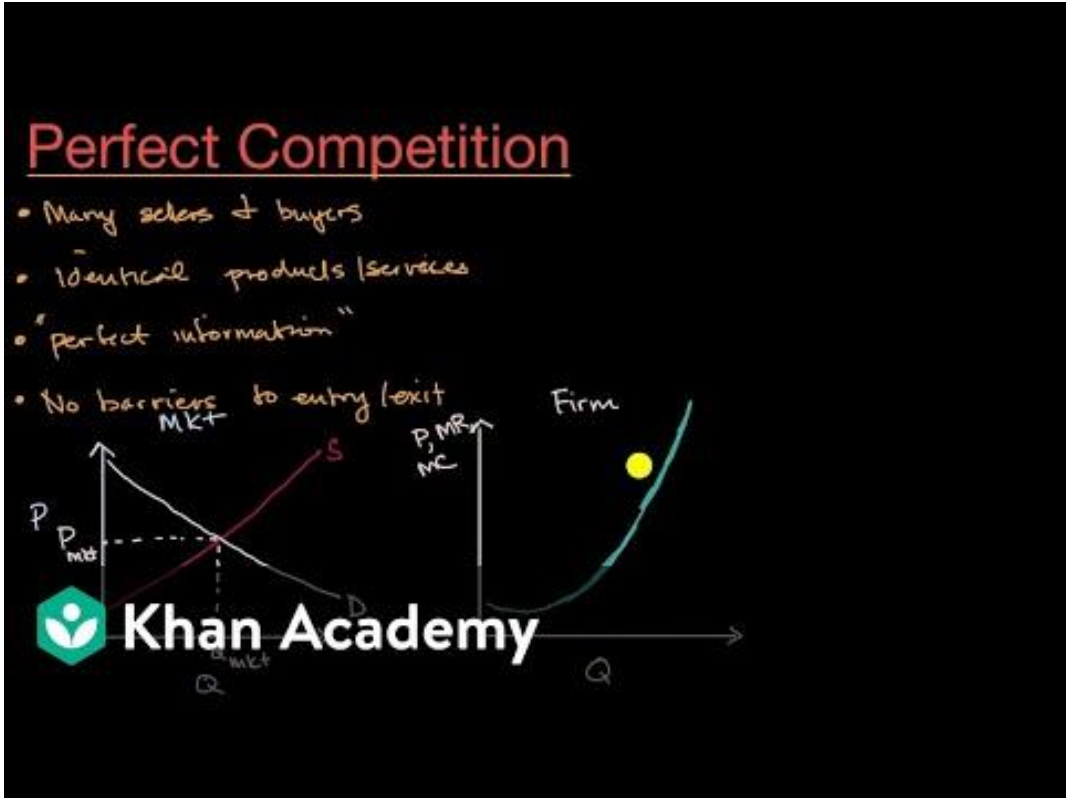
2. Convenient Interaction(no cost for seller and consumer to interact)

3. Potential for new suppliers and consumers to take part in the market or leave the market

4. Availability of non-misleading information regarding the market

5. Identical Products and Services provided

Video time:



Perfect Competition
• Many sellers & buyers
• identical products/services
• "perfect information"
• No barriers to entry/exit
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Why is competition important for the economy?

When sellers have to compete for consumers, prices are lowered and/or quality is increased as they try to attract consumers. In addition, when there are more sellers, in order to try to make themselves more distinct, they try to vary their good/service and innovate.

How competition increases the efficiency of an economy

Due to competition, companies have to be more efficient to increase quality or decrease prices. This means that companies with less efficient ways of manufacturing the product and more expensive sources of the necessary resources will be outcompeted. Companies with inefficient systems will be outcompeted, as fewer consumers will buy their product due to the higher prices and/or decreased quality.