ANSWERS – PERFECT MARKET

1 - Many buyers and sellers for a perfectly competitive market to exist there must be many buyers and sellers (producers) of a specific product. √√

-Homogeneous product Examples of homogeneous products are agricultural products, metals, electricity and water. √√

-Perfect information All market participants (buyers and sellers) have complete and correct information about market conditions. √√

- No collusion In a perfectly competitive market, each buyer and seller acts independently from one another and no collusion occurs. √√

-Freedom of entry and exit Buyers and sellers are completely free to enter or leave a market. There are no barriers to entry. √√

-Mobility of the factors of production The factors of production such as labour, capital and entrepreneurship can easily move from one geographical area to the next and from one industry to the next. √√

-Unregulated market The government does not interfere in the markets. Decisions are left to individual sellers or producers and buyers. √√ (8)

2. Normal profit is equal to the best return that the firm’s self-owned, self-employed resources could earn elsewhere. √√

Economic profit is the extra profit that owners receive above the minimum payment required (the normal profit) by the owners of the firm to stay in the particular business. √√ (4)

3. The entire demand line for the individual supplier will shift upwards as a

horizontal line because he can now supply an amount more that the new

equilibrium price. √√ (2)