Perfect Competition - Reason-Based Questions

Q.1. Perfect competition means best competition in the market.

Ans. False. Perfect competition simply means that an individual firm or an individual buyer has no control over price of the commodity which is determined by the forces of market demand and market supply.

Q.2. A firm under perfect competition earns super normal profits in the long run.

Ans. False. Because of free entry and exit, a firm under perfect competition earns only normal profits in the long run.

Q.3. Producers under perfect competition can charge different prices from different buyers.

Ans. False. Under perfect competition, a producer is a price taker. He cannot influence/change the market price. He can sell any quantity at the prevailing price. If a producer/firm tries to sell his product at a price higher than the prevailing price, he will lose all its customers. Because there are so many other firms in the market, selling the same product at the prevailing price.

Q.4. Demand curve of the firm under perfect competition is perfectly elastic.

Ans. True. Demand curve of the firm under perfect competition is perfectly elastic (Ed = ¥) because an individual firm can sell any amount of the commodity at the existing price and even the slightest rise in price would mean zero demand for its commodity.

Q.5. A firm under perfect competition is a price maker.

Ans. False. The firm under perfect competition is a price taker and not a price maker. It means that the price is determined by the industry so that the firm has to sell its product at the price determined by the industry. It is due to the fact that:

- **i.** The number of the firms under perfect competition is so large that no firm can influence the market supply.
- **ii.** Moreover all the firms in a perfectly competitive industry produce homogeneous product. So no firm can charge a price higher than the market price.

iii. Similarly, a firm can sell any amount at the prevailing price, so there is no point in selling at a lower price.