

## Perfect Competition - Very Short - Info & Con

---

### **Q.1. Define perfect competition.**

**Ans.** Perfect competition is a form of the market with large number of buyers and sellers; homogeneous product is sold with no control over price by an individual firm.

### **Q.2. What is a price taker firm?**

**Ans.** A price taker firm means that it has to accept the price as determined by the forces of market demand and market supply.

### **Q.3. When is a firm called 'price-taker'?**

**Ans.** A firm is called 'price-taker' when it sells its output at the given price as determined by the market forces of supply and demand.

### **Q.4. What is meant by homogeneous product?**

**Ans.** Homogeneous product refers to a product of which all units are identical with respect to size, quality, shape, colour, weight, etc.

### **Q.5. What is meant by abnormal profits?**

**Ans.** Profits are said to be abnormal when:  $TR > TC$  or  $AR > AC$ .

### **Q.6. What is meant by abnormal losses?**

**Ans.** Abnormal losses occur when:  $TR < TC$  or  $AR < AC$ .

### **Q.7. What is the shape of firm's demand curve under perfect competition?**

**Ans.** Firm's demand curve under perfect competition is a horizontal straight line parallel to X-axis.

### **Q.8. What is the shape of AR and MR curves under perfect competition?**

**Ans.** Both AR and MR curves are indicated by the same line. And, it is a horizontal straight line parallel to X-axis.

### **Q.9. Why are AR and MR equal under perfect competition?**

**Ans.** Under perfect competition, AR is constant for a firm. Hence,  $AR = MR$

### **Q.10. If the firms are earning abnormal profits, how will the number of firms in the industry change?**

**Ans.** If the firms are making abnormal profits, the number of firms in the industry will tend to increase.

**Q.11. If the firms are making abnormal losses, how will the number of firms in the industry change?**

**Ans.** If the firms are making abnormal losses, the number of firms in the industry will tend to decrease in the long run.

**Q.12. In which market form demand curve of a firm is perfectly elastic?**

**Ans.** In perfect competition, demand curve of a firm is perfectly elastic.

**Q.13. In which market form can a firm not influence the price of the product?**

**Ans.** Under perfect competition, a firm cannot influence the price of the product.